



City of Pharr

Financial and Accounting
Management Policy Statements

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City of Pharr, Texas
Financial and Accounting Management Policy Statements

The City of Pharr's Finance Department has been entrusted with the responsibility of ensuring all City funds are being expended in the most efficient manner possible. The policies and procedure set forth in this manual have been developed with the goal of ensuring that expenses are recorded in a manner consistent with Generally Accepted Accounting Principles (GAAP).

All expenses recorded in the City's financial system should also include enough detail, approvals, and account numbers to ensure that department expenses are being properly recorded. The approval process that is required on the policies accompanying this manual has been developed with enough internal controls in place to safeguard all city property.

CUSTODIAN OF FUNDS

Per City Charter, the City Manager shall be held responsible to the Board of Commissioners for the execution of the laws and the administration of the government of the City. Therefore, the City Manager is the official custodian of all City and grant funds, and by way of the Director of Finance authorizes the disbursement of City and grant funds consistent with accounting procedures of the American Institute of Certified Public Accountants and/or procedures set forth by the Government Finance Officers Association (GFOA).

OPERATING BUDGETARY POLICIES

Fiscal Year

The City's fiscal year has been established as the period beginning October 1st and ending September 30th of the subsequent year.

Budget Preparation Guidance

The City budget will be prepared in accordance with State Law, City Charter, and standards established by both Governmental Accounting Standards Board and the Government Finance Officers Association (GFOA). The budget will be comprehensive in nature and address all revenue and expense related funds of the City.

GFOA Distinguished Budget Program

The City will submit its official budget each year to the GFOA with an application for the Distinguished Budget Program. This will be the 16th year that the city submits an official budget and participate in the program. We have received the budget award the fifteen fiscal years and we believe that this budget continues to meet the GFOA requirements.

Designated Budget Officer

The City of Pharr does not have a formal budget department. The primary responsibility for the budget process has been given to the City Manager and delegated to the Finance Director. The City Manager, designated as the City Budget Officer, is responsible for the development of the annual budget to be submitted to the City Commission for approval and adoption.

Funds Included in the Annual Budget

Annual appropriated budgets are adopted for all funds with revenue and expenditure activities. The budget shall include all of the City's governmental; fiduciary, and proprietary funds.

The governmental funds consist of the general fund, the special revenue funds, the debt service fund, and the capital projects fund. There are currently no fiduciary funds. The proprietary funds consist of enterprise and internal service funds.

Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. The legal basis of accounting for budgetary purposes within the governmental funds, consistent with generally accepted accounting principles, is the modified accrual basis. The proprietary and fiduciary funds are budgeted, using also modified-accrual basis of accounting. Proprietary Fund Financial statements, however, will be prepared under accrual accounting where transactions and events are recognized as revenues/gains or expenses/losses when they occur, regardless of the timing of related cash flows. Under the modified accrual basis, not only must the underlying revenue transaction have occurred but also the related cash flow must take place within a short-enough period to have an effect on current spendable resources. Therefore, revenues must be both measurable and available when and event or transaction is expected to draw upon current spendable resources. Transfers are recognized in the accounting period in which the interfund receivable and payable arises. This basis of accounting is the same basis used in the year-end audited financial statements.

The basis for any accounting system is a good chart of accounts. It is especially important for purchasing accounts because a good chart of accounts allows the records to show purchased goods and services accurately and in appropriate detail. Recording all transactions in a consistent manner, by properly assigning the correct account numbers, will allow the City to possibly identify and track trends pertaining to revenues or expenses which may help City operations run more efficiently.

Included in this policy is a basic chart of accounts for accounting.

Outlined below is a general setup for accounting codes.

The account and fund structure presented here is only offered as a guide.

Expense account numbers are typically setup in the following format: **FF-DDDDD-AAAA-SS**

FF = Fund Number, DDDDD = Department Number, AAAA = Account, SS = Sub Account Number

The first two digits represent the fund number. They are as follows:

- | | |
|---------------------------------------|---------------------------------------|
| 01- General Fund | 40- General CIP |
| 02- General Contingency Fund | 50- Debt Service |
| 20- Hotel/Motel Fund | 55- City Garage |
| 21- Seized Assets Fund | 57- Health Insurance Fund |
| 22- Parkland and Dedication Fee | 60- Utility Fund |
| 24- Paving and Drainage | 61- Utility CIP |
| 25- Special Revenue Fund | 62- EMS |
| 30- Community Development Block Grant | 63- Fiber Optic |
| 32- Grants | 70- Pharr International Bridge |
| 33- COVID Relief Fund | 71- Pharr International Bridge-CIP |
| 35- Series 2018 | 75- Tierra Del Sol Golf |
| 36- Series 2019 | 81- Greater Chamber of Commerce |
| 37- Series 2020 | 84- TIRZ No. 1 |
| 38- Tax Notes | 85- TIRZ No. 2 |
| 39- Series 2017 | 86- PEDC |
| | 88- Pharr Housing Finance Corporation |
| | 89- Jackson Place Apartments |
| | 95- Payroll Fund |

To begin an understanding of the City's operations and its annual funding, a brief overview of the City's fund structure is presented, it is as follows:

		Governmental			
Fund Classification		GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Fund Type					
City Funds	General		Seized Assets	Debt Service	General Capital Projects
	General Contingency Reserve		CDBG	Tax Notes 2017	2017 Series Capital Projects
	Payroll		Hotel/Motel		Tax Notes 2017
	General Escrow Special Revenue Fund		Parkland Dedication		2018 Series Capital Projects
			Grants		2020 Series Capital Projects
			Paving & Drainage		Utility Capital Projects
					Bridge Capital Projects

		Proprietary	
Fund Classification		ENTERPRISE	INTERNAL SERVICE
Fund Type			
City Funds	Utility		City Garage
	EMS*		Health Insurance Claims Funds*
	Fiber/Broadband*		
	Golf Course		
	Bridge		

		Component Units	
		BLENDED	DISCRETE
TIRZ No.1			Pharr Housing Finance Corporation (PHFC)
TIRZ No.2			Jackson Place Apartments
			Pharr Economic Development Corporation (PEDC)
			Greater Chamber of Commerce

General Fund Departments	
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510000	Office of City Manager (OCM)
511000	Finance
512000	Police
513000	Purchasing
514000	Municipal Court
515000	Fire
516000	Office of Code Enforcement and Building
517000	Public Works
518000	Innovation & Technology
519000	Office of City Communications
520000	Municipal Library
521000	Grants Management
522000	Parks & Recreation
523000	Office of Strategic Excellence
524000	Legal
525000	Office of Public Safety Communications
526000	Human Resources
527000	Development Services
528000	Engineering
530000	Non-Departmental

Budgetary Control

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss and unauthorized use, and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits likely to be derived, and (2) the evaluation of cost and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The auditors believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions. Key controls are evaluated continually.

Budgetary control is maintained through a monthly line-item review by all departments. A reminder is sent to all department managers on the need to analyze their monthly financial reports. Monthly reports are available for each department reflecting current and accumulated expenditures as well as the percent of budget expenditures compared to percent of current year. A member of the accounting team identifies possible future overruns and communicates that information to the department managers for correction.

Balance Budget

The Budget Officer is required to submit a balanced budget. A balanced budget is one in which total financial resources available, including prior year's ending financial resources plus projected resources, are equal to or greater than the budgeted expenditures/expenses. Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, supplementary appropriations may be necessary. When appropriate, The City will use funds from the Fund Balance to balance the budget. The City will avoid budgetary practices that raise the level of current expenditures/expenses to the point that future years' operations are placed in jeopardy.

Budgeted Tax Rates

Prior to adopting the budget tax rate, including the levy, the City Commission shall hold a public hearing according to the dates established in the budget calendar. The City Commission shall provide for public notice of the date, time and location of the hearing.

Public Hearings, Accessibility of Budget to the Public

The City's policy is to have at least one public hearing on the proposed budget at a duly advertised public meeting. The public meeting will be advertised at least one week prior to the budget being finally adopted. The Officer shall file the final proposed budget with the City Secretary, Library, and post it online soon after the City Commission adopts it. The budget shall be available for inspection by any taxpayer.

THE BUDGET PROCESS

Original Budget

The budget process for developing, adopting, and implementing the budget includes the following:

Annual budgets are legally adopted for all funds of the City that have revenue and expenditure related activities. The City Charter states that between sixty (60) and ninety (90) days prior to the end of the fiscal year, the City Manager is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

At the inception of the budget process, a budget calendar is prepared, which presents in chronological order, specific events that take place during the process as well as the timing of each. The budget calendar for this year's process immediately follows this discussion of policies and procedures.

Dates for public hearings, the purpose of which are to obtain taxpayer's comments, are set by the Board of Commissioners at the time the budget is submitted to that body. The Board Commissioners may add to, subtract from or change appropriations, but may not change the form of the proposed budget. Any changes must be within the revenue and reserves estimated as available by the City Manager. Prior to September 25 of each year, the budget is legally enacted through the passage of an ordinance.

The appropriated budget is prepared by fund and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

During April and May of each year, department managers prepare departmental budget requests for which each is responsible. During the month of June, budget hearings are held with the department managers. Following the budget hearings with the department managers, the Budget Officer makes any changes to their requests, which he/she deems appropriate. The result is the Officer's recommended budget. During the mid-to-latter part of July, the Officer presents his recommended budget to the City Commission in budget workshops. As a result of the City Commission's comments during these workshops, changes are made to the Officer's recommended budget. The budget reflecting these changes is the proposed budget.

Prior to September 1st of each year, the Officer is required to submit to the City Commission a proposed budget for the fiscal year beginning on the following October 1st. The target due date for submitting the proposed budget, resulting from budget workshop hearings, shall be no later than two to three weeks before the end of the fiscal year. The final budget, which is to be considered for adoption, shall be submitted no later than one week before the end of the fiscal year.

Prior to October 1st, the City Commission through the passage of an ordinance legally enacts the budget. The budget will be implemented on October 1st. The ordinance approving and adopting the budget appropriates spending limits at the fund level.

Revisions to the Adopted Budget

At any time during the fiscal year, the City Manager can reallocate any expenditures within a fund without the approval of the Board of Commissioners if total allocations stay as originally adopted. City Manager shall also have the authority to make FTE changes which shall be subject to ratification by City Commission through a Budget Amendment. Department Directors can also request reallocation of expenses with approval of City Manager through a Budget Adjustment Request Form provided by Finance Department; reallocations from personnel accounts, however, shall only be requested after pre-approval of both; City Manager and Human Resources.

Monitoring Compliance with the Budget

Reports comparing actual revenues and expenditures/expenses to budgeted amounts are prepared and carefully monitored monthly to determine whether estimated revenues are performing at/or above levels budgeted and to ascertain those expenditures/expenses are following legally adopted budget appropriations.

Duration of Budgeted Revenues and Appropriations

Budgeted revenues and appropriations lapse at the end of each fiscal year.

REVENUES POLICIES

Balance and Diversification in Revenue Sources

The revenue goals for the City of Pharr are diversified in nature to assist the city in meeting its mission of providing services to its citizens. Major sources of revenues consist of sales, property, gross receipts and utility taxes, charges for services and grants and contributions. Other revenue sources contributing to the City's mission include assessments, fines and forfeitures, investment income, building permits, certificates of inspection and miscellaneous income.

User Fees

For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services, excluding credit card usage and several recreation programs.

The City Commission shall determine the appropriate cost recovery level and establish the fees. Where feasible and desirable, the City shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary.

Revenue Recognition

Governmental Funds - Modified Accrual

Governmental funds recognize revenue in the accounting period in which they become susceptible to accrual. Susceptible to accrual means that revenues are both measurable and available to finance expenditures of the fiscal period. Financial resources are available only to the extent that they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The availability period used for revenue recognition is generally 60 days.

Revenue Sources

A. Sales Taxes

Revenue is recorded when the underlying exchange occurs. Cash is received after 2 months. Amounts collected in October after year-end are subject to accrual and are recognized as revenues in September. Derived tax revenues result from assessments imposed by the City on exchange transactions. Examples include taxes on food, liquor, groceries, cigarettes and retail sales of goods and services.

The principal characteristics of these transactions are (1) the City imposes the provision of resources on the provider (the entity that acquires the income, goods, or services) and (2) the City's assessment is on an exchange transaction, such as the exchange of motor fuel for the market price of the fuel. Periodically, enabling legislation may require a particular source of derived tax revenues to be used by the City for a specific purpose or purposes such as revenues resulting from a motor fuel tax being required to be used for road and street repairs.

In contrast to time requirements, purpose restrictions do not affect the timing of recognition for any class of non-exchange transactions for the City. Rather, purpose restrictions report resulting net position or fund balance (as appropriate) as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact (for example, endowment principal).

B. Ad Valorem

Property taxes are recognized as revenues when they become measurable and available to finance expenditures of the current period. Taxes levied each year are recorded as revenue in that fiscal year at the time that cash is received. Property taxes attach as an enforceable lien on property as of January 1 based on the assessed value of the property. Taxes are levied in October and are due and payable on or before January 31.

Taxes are typically remitted during the year for which they are levied. Delinquent taxes are determined to be taxes remaining uncollected at the end of the year for which the taxes were levied.

Property tax revenue is recognized in the fiscal year for which taxes have been levied, provided the "available" criteria are met. The property tax assessment is made to finance the budget of a particular period and the revenue produced from any property tax assessment is recognized in the period for which it was levied.

When property taxes receivable is recognized, or when property taxes are collected in advance of the year for which they are levied, they are recorded as deferred inflows of resources and recognized as revenue in the year for which they are levied. Property tax revenues are recognized when they become available.

Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. If, because of unusual circumstances, the facts justify a period greater than 60 days, the City will disclose the period being used and the facts that justify it. All property tax assessment, billing and collection functions are handled by The Hidalgo County Tax Collector. Taxes collected are remitted to the City by Tax County Collector in the month week subsequent of the actual collection date. Taxes held by the County Collector, if any, are recorded as property tax receivable.

B. Franchise Taxes

The Franchise tax is a tax on the total gross revenues of a company, regardless of their source, conducting business within the confines of the Pharr city limits. These taxes are recognized in the fiscal year for which taxes have been imposed on transactions and are payable to the City annually. Revenue is recognized under the modified accrual basis of accounting.

C. Charges for Services

Charges for services includes fees generated for user fees for the recreation, fees collected by the library and fees imposed by the Police and Fire Departments. Revenue is recognized under the modified accrual basis of accounting. Citizens or others pay user fees as charges for specific goods or services. Revenues from user fees are recognized in the period earned, regardless of when cash is received. Revenues from some user fees (for example, pool fees) are earned at the time they are collected. In other cases, the entity may provide the service before the fee is charged, for example, ambulance services provided by the fire department. In these cases, the City recognizes fee revenue and receivables when the service is performed

D. Intergovernmental

Intergovernmental revenue includes grant revenue and other payments from governmental entities. Revenue is recognized when eligible expenditures have been incurred against a fully executed grant agreement. For the timing requirement of revenue recognition for grants to occur on the modified accrual basis, the criteria established for accrual-basis recognition is met and the revenues are available. "Available" means that the City has collected the revenues in the current period or expects to collect them soon enough after the end of the period (within 60 days) to use them to pay liabilities of the current period when all eligibility requirements have been met. Advance receipts or payments for use in the following period are reported as deferred in flows of resources or Unearned Revenue.

E. Fines and Forfeitures

For municipal court fines and forfeitures, Revenue from fines should be recognized in the period the City has an enforceable legal claim to the amounts, regardless of when cash is received. Conditions that constitute an enforceable legal claim for fines include (a) the date by which an individual may contest a court summons expires and the fine is automatically imposed, (b) the offender pays the fine before the municipal court date, or (c) the municipal court imposes the fine. Appropriate allowances should be made for uncollectible fines and fines expected to be waived through an appeals process.

Enterprise Funds -Full Accrual

Enterprise Funds recognize revenue when transactions take place, not the actual transfer of money. Revenue is recognized when income is earned.

Revenue Sources

A. Water and Sewer Charges

Water and Sewer charge revenue is recognized after service is provided and bill is issued. A receivable account is created every time a bill is generated, and payments get credited to the receivable account.

Enterprise Funds recognize revenue when transactions take place, not the actual transfer of money. Revenue is recognized when income is earned.

Revenue Sources

B. Broadband Charges

Broadband charge revenue is recognized when bill is issued. This bill is charged in advance as opposed to Water and Sewer charges, therefore a receivable is created when bill is generated, and this gets credited as payments are received.

C. Ambulance Service Charges

Ambulance charge revenue is recognized when service is provided, and bill is generated. A receivable account is created every time a bill is generated with it respective allowance for uncollectible (see Allowance for Doubtful Accounts Section).

D. Toll Fees

Toll fee charges are recognized when earned.

Recognition of Accounts Receivable and Revenue

Governmental Funds

A governmental fund recognizes revenues using the modified accrual basis of accounting in the accounting period the revenues become both, measurable and available to finance expenditures of the fiscal period.

Per GASB No. 65 paragraph 30; when an asset is recorded in governmental fund financial statements, but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

The following receivable accounts are recorded as an asset with a liability of deferred inflow:

- a. Property Taxes
- b. Library Fines
- c. Warrants Receivable
- d. Utility Accounts
 - a. Sanitation and Debris
 - b. Paving and Drainage

Proprietary Funds

A proprietary fund recognizes revenues using the full accrual basis of accounting. GASB 65, paragraph 30, is NOT applicable to proprietary funds.

The same amounts of receivables are recognized under either the modified or full accrual basis. The difference of the two bases is in the recognition of revenues.

For Modified accrual:

Report deferred inflow of resources on the balance sheet for:

1. Revenues earned but not available
2. Intra-entity sales of future revenues (unearned but available) between the primary government and a component unit.

Report unearned revenue as a liability for derived revenues received in advance (unearned but available).

Grant Revenue

Grant revenue for the City of Pharr is recognized when earned subject to criteria eligibility compliance.

When a Grant is awarded but not yet received, a receivable is created.

When a grant is awarded and prepaid, a deferred inflow is recognized in the balance sheet as a liability and revenue is recognized only when earned.

Cost Accounting

It is the policy of the City to allocate to each department level, costs to the extent that it is practical and in accordance with the cost/benefit approach of accounting.

Property Tax Revenues/Tax Burden

The City shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees, and economic development. The City shall also strive to minimize the property tax burden on Pharr citizens.

Utility/Enterprise Funds User Fees

It is the intention of the City that all utilities and enterprise funds be self-supporting. As a result, utility rates and enterprise funds user fees shall be set at levels sufficient to cover operating expenditures, meet debt obligations, provide additional funding for capital improvements, and provide adequate levels of working capital. The City shall seek to eliminate all forms of subsidization to utility/enterprise funds from the General Fund.

Revenue Estimates for Budgeting

In order to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and should avoid mid-year service reductions.

Revenue Collection and Administration

The City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. In addition, since revenue should exceed the cost of producing it, the City shall strive to control and reduce administrative costs. The City shall pursue to the full extent allowed by state law all delinquent taxpayers and others overdue in payments to the City.

Revenues Over Expenses - Stated Funds

All revenues over the required amount for the continued operations of the Bridge Fund will be transferred to the General Fund as per provision of Bond Ordinance 2005-51, Section 25, Subsection i.vi.

All revenues over the required amount for the continued operations and Debt Service of the Garage Fund, EMS, Fiber Optic and Golf Course Fund will be transferred to the General Fund. All revenues under the required amount for the continued operations of mentioned funds, will be transferred from General Fund.

Currently, the Utility Fund will transfer funds to the General Fund in an amount equal to that which is estimated to be comparable with the resources it uses. No more than 20% of City Manager’s Office and Administrative Services, no more than 20% of Finance Department, no more than 10% of Innovation and Technology Departmental expenditures, no more than 15% of Engineering Department Expenditures and no more of 10% of Planning and Community Development’s budgeted departmental expenditures.

Write-Off of Uncollectible Accounts

The City shall monitor payments due to the City (accounts receivable) and periodically write-off accounts where collection efforts have been exhausted and/or collection efforts are not feasible or cost-effective.

The Governmental Accounting Standards Board (GASB) requires that bad debts be treated as a contra-revenue rather than an expense for financial reporting purposes. Budgetary reporting for City of Pharr also allows for like treatment for bad debts. This treatment effectively reduces revenue for debts that are not probable for collection. For that realized revenue to be reflected properly, bad debts must be regularly recognized in the accounts of the city as follows:

- a) **For Property Taxes**, an annual year-end adjustment to Allowance of Uncollectible account will be made based on receivable balance schedule provided by Hidalgo County Tax Collector Office as of the end of the fiscal year with the following percentages:

<u>Year of Balance Outstanding</u>	<u>Allowance % for Uncollectible</u>
Current	2%
1-9	2%
10 +	98%

- b) **For Library Fines**, an annual year-end adjustment to Allowance of Uncollectible account will be made based on aging receivable schedule kept by the library department for overdue fees with the following percentages:

<u>Year of Balance Outstanding</u>	<u>Allowance % for Uncollectible</u>
Current	20%
1	20%
2	50%
3	65%
4	75%
5	85%
5+	100%

- c) **For Warrant Revenue**, an annual year-end adjustment to Allowance of Uncollectible account will be made based on aging receivable schedule generated by Municipal Court's INCODE and any balance 10 year and older should be accounted as 100% uncollectible.

Years of Balance Outstanding	Allowance % of Uncollectible
Current	
1	20%
2	30%
3	50%
4	60%
5	70%
6	85%
7	80%
8	90%
9	95%
10+	100%

- d) **For Utility Accounts**, an annual adjustment will be made to write off 100% of all amounts outstanding in aging report with an Inactive status for at least 365 day and 50%for those inactive for less than 365 days.
- e) **For EMS Charges**, a semiannual adjustment will be made to write off any unpaid balance outstanding for more than 180 days according to the payor mix collection rate.

Departmental Miscellaneous Revenue Accounts

Departments which receive miscellaneous revenue for a purpose that is intended to be used by that department for minor activities shall be allowed to use those funds to the extent that they are available. These funds will not carry over to another fiscal year.

EXPENDITURES/EXPENSES POLICES

Current Funding Basis

The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of fund balance accumulated through prior year savings. (The use of fund balance shall be guided by the Fund Balance/Retained Earnings Policy Statements).

Avoidance of Operating Deficits

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fees increases, or use of fund balance within the Fund Balance/Retained Earnings Policy. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget.

Priority in Applying Restricted vs Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

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 continue service levels.

Periodic Program Reviews

The City Manager shall undertake periodic staff and third-party reviews of City programs for both efficiency and effectiveness. The privatization and contracting of services with other governmental agencies or private entities will be evaluated as alternative approaches to service delivery. Programs which are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.

Encumbrances and Uncompleted Projects

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is an extension of formal budgetary integration in governmental funds. Although appropriations lapse at year-end for annually budgeted funds, the City honors encumbrances outstanding at year-end. Since these commitments will be honored during the subsequent year, outstanding encumbrances at year-end should be included in the subsequent year's budget.

Purchasing

The City shall conduct its purchasing and procurement functions efficiently and effectively through the City's Purchasing Department, fully complying with applicable State laws and City Ordinances. Staff shall make every effort to maximize discounts and capitalize on savings available through competitive bidding and "best value" purchasing.

FUND BALANCE/RETAINED EARNINGS POLICIES

Definitions

Fund Balance – The excess of assets over liabilities in a governmental fund. Fund balance can be made up of five separate categories defined as follows:

1) 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.

2) 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.

3) 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.

4) 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.

5) Unassigned fund balance – is the residual classification of the General Fund and includes all amounts not contained

in other classifications. Unassigned amounts are technically available for any purpose

General Fund Committed Balance

The City shall strive to maintain the General Fund (not the combined reporting General Fund which consists of the Payroll, Contingency, and the General Funds) committed fund balance at **90 days (25%)** of the current year's original budget appropriation for operations and maintenance, which is defined as the total budget less capital outlay purchase, major one-time budgeted activities, economic incentive payouts, and the annual transfer from the General Fund to the other funds (Charter mandated contingency funding will not take place so long as the contingency fund is fully funded).

Retained Earnings of Other Operating Funds

In enterprise operating funds, the City shall strive to maintain positive retained earnings positions to provide sufficient reserves for emergencies and revenue shortfalls.

- ✚ Utility Fund, an operating reserve will be established and maintained at 120 days of the current year's original budget appropriation for operation and maintenance, which is defined as the total budget less debt service and capital project expenditures.
- ✚ The Bridge Fund's contingency account will be equal to the annual operating cost (expenses minus long-term debt and minus non-operating General Fund transfers) plus one year of the highest long-term debt service payment (principal and interest).
- ✚ The Fiber Fund's contingency account will be equal to the one year's operating cost (total expenses minus long-term debt, capital expenses and minus transfers) plus one year of the highest long-term debt service payment (principal and interest).

Use of Fund Balance/Retained Earnings

Fund Balance/Retained Earnings shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. The use of these funds will be approved by the City Commission.

Use of Unreserved Fund Balance/Retained Earnings will be disclosed to the Commission. If the required amounts go below the stated Policy amount, the City will set aside a sufficient portion of the upcoming fiscal year's budget to meet the required reserve amount.

Any surpluses realized at year end shall be used first to meet reserve policies, then capital replacement purposes, then retirement/extinguishing of debt.

Retained Earnings of Internal Service Funds

The City shall not regularly maintain positive retained earnings in excess of 10 percent of the current year's operation and maintenance expense in an internal service fund. Normally, when an internal service fund's retained earnings exceed 10 percent, the City shall reduce the charges for services provided by the internal service fund to other City operating funds.

Debt Service Funds

The City shall maintain sufficient reserves in its debt service funds, which shall equal or exceed the reserve fund balances required by bond ordinances, consistent with the covenants in the bond ordinances pertaining to the tax-exempt status of such bonds.

CAPITAL IMPROVEMENTS POLICIES

Capital Improvements Planning

The City shall review annually the needs for capital improvements and equipment the current status of the City's infrastructure, replacement and renovation needs, and potential new projects. All projects, ongoing and proposed, shall be prioritized based on an analysis of current needs and resource availability. For every capital project all operation, maintenance and replacement costs shall be fully expended.

Long-Term, Capital Planning

A five-year capital improvement plan will be developed. This plan will be prioritized based on an analysis of current needs and resource availability.

Capital Project Funding

No capital improvement project will begin without sufficient funding. Funding will be monitored quarterly to ensure project overruns are not funded to the detriment of the fund balance/retained earnings unreserved/undesignated policies.

Replacement of Capital Assets on a Regular Schedule

The City shall annually prepare a schedule for the replacement of its non-infrastructure capital assets. Within the resources available each fiscal year, the City shall replace these assets according to the aforementioned schedule.

Capital Expenditure Financing

The City recognizes that there are three basic methods of financing its capital requirements. It can budget the funds from current revenues; it can take the funds from fund balance/retained earnings as allowed by the Fund Balance/Retained Earnings Policy; or it can borrow money through debt. Debt financing includes general obligation bonds, revenue bonds, certificates of obligation, lease/purchase agreements, certificates of participation, commercial paper, tax notes, and other obligations permitted to be issued or incurred under Texas law. Guidelines for assuming debt are set forth in the Debt Management Policies.

DEBT MANAGEMENT POLICIES

Capital Improvement Plan

Major capital improvements will normally be funded through the issuance of long-term debt, the City is required to update at least every year its Capital Improvement Project list and no longer than 5 years.

Debt Policies

The City will limit the issuance of long-term debt to capital projects that cannot be funded from current revenues. At no time will the Fund Balance of the City's General Fund or respective enterprise funds be depleted to a point below the City's policy for any project or purpose.

Debt Term Limitation

The City will not issue long-term debt for a period longer than the estimated useful life of the capital asset being debt financed. Generally, the City shall issue bonds with a final maturity not exceeding 20 years when issued for general governmental purposes and 30 years when issued for enterprise system or economic development purposes.

Use of Long-Term Debt for Maintenance & Operating Cost

The city will not utilize long-term debt to finance recurring operating costs or minor maintenance. Major maintenance may be financed with long-term debt as allowed by state law.

Debt Structure

Generally, the City will seek to issue bonds with a level debt service structure that produces the lowest risk-adjusted cost of capital. Non-level debt service, ascending debt service, or deferred principal structures shall be used judiciously and only when necessary for tax rate and/or debt service coverage purposes. Capitalized interest included in the debt structure shall be used judiciously and only when determined to be necessary by the Finance Director and the City's financial advisor, and as permitted by state law.

Call Provisions

Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the City. When possible, all bonds shall be callable only at par.

Sale Process

The City shall use a negotiated bond sale, competitive bond sale, or private placement. The sale method shall be determined by the Finance Director in consultation with the City's financial advisor. In a negotiated bond sale, the underwriting syndicate shall be selected by the City in consultation with the City's financial advisor. If a competitive sale is used, the City shall award the bonds based on a true interest cost (TIC) basis.

Rating Agencies

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff, with assistance of financial advisors, shall 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, S&P Global Ratings, Fitch, and Kroll, as recommended by the City's financial advisor.

CONTINUING DISCLOSURE

The City is committed to providing continuing disclosure of financial and pertinent credit information in connection with its obligations under the Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. City staff, with the assistance of the City's financial advisors and, if necessary, the City's bond counsel, will undertake to update financial and pertinent credit information within six months of the end of the City's fiscal year and at such other times as may be indicated by material changes in the City's financial situation.

GENERAL

These Procedures for Post-Issuance Compliance (the "Procedures") are for the purpose of maintaining and evidencing compliance with the federal tax requirements that apply to the bond financings of the City of Pharr, Texas (the "City"). In furtherance of such purposes the City has implemented these Procedures with respect to the following:

- ✓ General record-keeping and record retention
- ✓ Timely return filings
- ✓ Proper and timely use of bond proceeds and proper use of bond-financed property
- ✓ Arbitrage – yield restriction and rebate
- ✓ Reissuance requirements
- ✓ Corrective action

These Procedures apply to any obligations to which sections 103 and 141 through 150 of the Internal Revenue Code of 1986 (the "Code") are applicable, whether or not such obligations are in fact tax-exempt. For example, these Procedures will be followed with respect to any issue of tax credit bonds to which such sections of the Code apply. It is the intention of the City to modify or amend these Procedures in the future in order to comply with any requirements set forth in subsequent rulings and other advice published by the Internal Revenue Service (the "Service" or the "IRS"), as such authorities may apply to the City and its obligations.

RESPONSIBLE PARTIES

The City acknowledges that, as the issuer of debt obligations subject to the Code, it is responsible for post-issuance compliance with respect to such debt obligations. Finance Director of the City has general oversight of the post-issuance compliance of bond financings. In addition, the following parties are responsible for the duties listed next to their title:

Finance Director

- Oversees of all financial functions of the City

Assistant Finance Director

- Responsible for all accounting functions of the City

Finance Director/City Manager

- Responsible for banking, cash management, investment, and certain debt administration activities of the City

Assistant Finance Director

- Responsible for the cataloguing and storage of various financial records of the City

Parties responsible for the financing aspects and the operations aspects of bond-financed facilities will coordinate efforts to ensure that any actions taken with respect to a bond-financed facility will be in compliance with the requirements of the Code. The City will provide training and/or make available educational materials regarding compliance requirements (e.g., private use requirements) to the parties responsible for the oversight of bond-financed facilities.

GENERAL RECORDKEEPING & RECORD RETENTION

General record retention duties are the responsibility of City Secretary

Finance Director will always maintain a copy of the following documents on file:

- ✓ Audited Financial Statements
- ✓ Reports of any examinations by the Internal Revenue Service of the City's financings

With respect to each issue of obligations, Finance Director will retain the following for the life of the obligations (including the life of any obligations issued to refund the original debt) plus three years:

- ✓ Bond transcript, including authorizing documents, offering document, the federal tax certificate, and certificates regarding issue price
- ✓ Minutes and resolution(s) authorizing the issue
- ✓ Any formal elections (e.g., election to employ an accounting methodology other than specific tracing)
- ✓ Records relating to the payment of debt service (including credit enhancement)
- ✓ Documentation relating to investments and arbitrage compliance, as described in the “Recordkeeping” section of “Arbitrage – Yield Restriction and Rebate” below
- ✓ Documentary evidence of when and for what purpose the bond proceeds were expended, as described in the “Recordkeeping” section of “Expenditures of Bond Proceeds” below
- ✓ Any grant requests or fundraising materials and documentation of grants or fundraising receipts relating to projects that also may be financed, in whole or in part, with bond proceeds
- ✓ Any agreement of a type described in the “Special Legal Entitlements that Can Create Private Business Use” section of “Private Business Use” that relates to a bond-financed facility
- ✓ Bond paying agent/trustee statements
- ✓ Rebate compliance reports
- ✓ Related IRS filings (e.g., Form 8038-T Rebate)
- ✓ IRS correspondence regarding such issue
- ✓ Other documentation (including written advice of bond counsel) material to the particular requirements that are applicable to the tax status of the financing

Documents may be retained as hard copies or in an electronic format (in accordance with Revenue Procedure 97-22, 1997-1 C.B. 652), so long as such documents are retained in organized, accessible format that preserves the accuracy of such documents.

RETURN FILINGS

Finance Director will be responsible for the timely filing of the Form 8038-G information report (or such other series 8038 form as may be applicable to a specific issue of bonds) with the Service, which filing may be completed by bond counsel after the issuance of the obligations. The City must file a separate Form 8038-G for each issue of bonds not later than the 15th day of the second calendar month after the close of the calendar quarter in which the bonds are issued.

EXPENDITURE OF BOND PROCEEDS

General

Finance Director is responsible for oversight of the expenditure of bond proceeds, including monitoring whether such expenditures are made in a timely manner for the purposes for which the bonds were authorized in order to qualify for rebate exceptions set forth in the Code and Regulations and whether investments of unexpended bond proceeds continue to qualify for temporary period exceptions to yield-restriction requirements. Bond counsel may be consulted regarding allocation of expenditures between each bond issue to ensure timely expenditure of bond proceeds.

Additionally, Finance Director will monitor compliance with the requirement of the Regulations that proceeds of a bond issue are to be allocated to expenditures by 18 months after the later of the date the expenditure was made or the date the project is placed in service (and in no event later than 60 days after the earlier of (i) the fifth anniversary of the issue date or (ii) retirement of the issue).

With respect to the reimbursement of any expenditure paid prior to the date of issue of the bonds, Finance Director will monitor compliance with the requirement of the Regulations that such reimbursement allocation to bond proceeds is made not later than 18 months after the later of (i) the date the original expenditure is made or (ii) the date the project is placed in service or abandoned, but in no event more than three years after the original expenditure is paid.

Furthermore, Finance Director will monitor compliance with the requirement of the Regulations that such reimbursement allocation is for the reimbursement of expenditures paid on or after 60 days prior to the date of a reimbursement resolution (including for this purpose a bond order).

Recordkeeping

With respect to each issue of obligations, the City will retain the following for the life of the obligations plus three years:

- ✓ Documentation of allocation of bond proceeds to expenditures (e.g., allocation of bond proceeds for expenditures for the construction, renovation or purchase of facilities)
- ✓ Documentation of allocations of bond proceeds to bond issuance costs
- ✓ Copies of all requisitions draw schedules, draw requests, invoices, bills, and cancelled checks related to bond proceeds spent during the construction period
- ✓ Copies of all contracts entered for the construction, renovation, or purchase of bond-financed facilities

- ✓ Records of expenditure reimbursements incurred prior to issuing bonds for bond-financed facilities
- ✓ List or schedule of all bond-financed facilities or equipment
- ✓ Depreciation schedules, if any, for bond-financed depreciable property
- ✓ Documentation of any purchase or sale of bond-financed assets

Documents may be retained as hard copies or in an electronic format (in accordance with Revenue Procedure 97-22, 1997-1 C.B. 652), so long as such documents are retained in organized, accessible format that preserves the accuracy of such documents.

PRIVATE BUSINESS USE

General

To confirm that the bonds serve governmental purposes rather than providing proscribed benefits to nongovernmental persons engaged in “private business” activity, it must be determined whether the City expects that there will be any private business use of the proceeds of the bonds. Private business use exists if more than five percent (and, in certain circumstances, ten percent) of the proceeds of the issue or the property to be financed by the bond proceeds are used directly or indirectly by any nongovernmental person in that person’s trade or business.

In addition, no more than five percent (and, in certain circumstances, ten percent) of the proceeds of an issue may be secured directly or indirectly by property or payments derived from private business use under the “private security or payment test.” Private business use may occur due to arrangements (typically contractual) that give nongovernmental persons special legal entitlements with respect to the use of bond-financed property (including a sale or other transfer of bond-financed property to a nongovernmental person). Finally, no more than five percent of the proceeds of an issue of bonds may be used to make loans or arrangements that allow a nongovernmental person to defer payments that it is obligated to make with respect to the financed property or the bonds.

The City’s finance team will coordinate with the parties responsible for the use and operation of a bond-financed facility by communicating the private business use restrictions to such parties and requiring that all activity that may give rise to such use be communicated to Finance Director in advance of such use. Finance Director is responsible for tracking trade or business activity by third parties as it relates to each issue of obligations and will monitor such activity no less frequently than yearly and, in any event, upon being notified of any new activity that will give rise to a significant amount of trade or business activity by a third party.

Special Legal Entitlements that Can Create Private Business Use

A special legal entitlement that can create private business use can arise from arrangements that convey ownership rights, leasehold rights or management rights (e.g., priority rights to use the facility) or other similar rights. Recognizing that a special legal entitlement may give rise to private business use, each time the City intends to enter into one of the following, the City will determine if such agreement relates to any bond-financed facility:

- Management and other service contracts
- Research agreements
- Naming rights contracts
- Ownership
- Leases
- Subleases
- Leasehold improvement contracts
- Joint venture arrangements
- Limited liability corporation arrangements
- Partnership agreements
- Non-contractual use of bond-financed office space and/or parking facilities by any nongovernmental person
- Any other contract conferring a special legal entitlement or special economic benefit that is comparable to ownership

If such an agreement will be with respect to a bond-financed facility, the City will take measures designed to preserve the intended federal income tax status of that issue of bonds. Such measures may include ensuring that such agreement falls into an applicable exception under the private business use rules, making a determination that private use will not exceed the applicable limit or such other action as may be recommended by bond counsel, including taking remedial actions with respect to the issue of bonds whose federal tax status is implicated.

PAYMENTS ON THE BONDS

The trustee/paying agent for the bonds shall determine the amount of principal and interest payable on each payment date for the bonds. Periodically, and no less frequently than annually, Finance Director will review the amount of the interest payments to verify that proper payments of interest have been made.

ARBITRAGE – YIELD RESTRICTION & REBATE

General

Finance Director with guidance of Financial Advisor is responsible for monitoring the City's compliance with the yield restriction requirements of section 148(a) of the Code and the rebate requirements of section 148(f) of the Code. Such monitoring includes, but is not limited to:

- ✓ Tracking the allocation of bond proceeds to expenditures for compliance with any temporary period and spending exceptions, no less frequently than yearly
- ✓ Ensuring that any forms required to be filed with the IRS relating to arbitrage and any payments required pursuant thereto are filed in a timely manner
- ✓ Ensuring that "fair market value" is used with respect to the purchase and sale of investments
- ✓ Additionally, the City will hire a rebate analyst to monitor compliance with rebate and yield restriction rules on a yearly basis.

Compliance with the investment rules will require that the City be able to account for, in terms of dates and amounts, all uses (including disbursements and investment activity) of particular categories of bond-related money.

Finance Director will account for all of the following disbursements: monies in the project fund, debt service fund and any other fund into which proceeds of the obligations have been deposited, including any reserve fund. In doing so, Finance Director will use any reasonable consistently applied accounting method to account for gross proceeds, investments, and expenditures of an issue.

Recordkeeping

With respect to each issue of obligations, the City will retain the following for the life of the obligations plus three years:

- ✓ Documentation of allocations of investments and calculations of investment earnings
- ✓ Documentation for investments of the bond proceeds related to:
- ✓ Investment contracts (e.g., guaranteed investment contracts)
- ✓ Credit enhancement transactions (e.g., bond insurance contracts)
- ✓ Financial derivatives (e.g., swaps and caps)
- ✓ Bidding of financial products

✓ **Documentation regarding arbitrage compliance, including:**

- Computation of bond yield
- Computation of rebate and yield reduction payments
- Form 8038-T, *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*
- Form 8038-R, *Request for Recovery of Overpayments Under Arbitrage Rebate Provisions*

Documents may be retained as hard copies or in an electronic format (in accordance with Revenue Procedure 97-22, 1997-1 C.B. 652), so long as such documents are retained in organized, accessible format that preserves the accuracy of such documents.

 **REISSUANCE**

Prior to making any changes to the terms of an obligation, including its underlying security, the City will consult with bond counsel to determine whether such change will result in the reissuance of such obligation for federal tax law purposes. If it is determined that a change will result in a reissuance, the City will take such action, including the recalculation of yield, the filing of a new form 8038-G and the payment of rebate obligations, as is necessary to maintain the tax status of the bonds.

 **CORRECTIVE ACTION**

Reports regarding the aforementioned compliance policies with respect to any issue of bonds will be made by the party given responsibility for such area to Finance Director no less frequently than annually. At such time, Finance Director will determine whether any corrective action is required with respect to the applicable issue.

A corrective action may be required if, for example, it is determined that bond proceeds were not properly expended, the City is not in compliance with the arbitrage requirements imposed by the Code or the City has taken a deliberate action that results in impermissible private business use (e.g., sale of bond-financed property).

If the City determines or is advised that corrective action is necessary with respect to any issue of its obligations, the City will, as may be applicable, in a timely manner:

- i. Seek to enter into a closing agreement under the Tax-Exempt Bonds Voluntary Closing
- ii. Agreement Program described in Notice 2008-31 (or any successor notice thereto)
- iii. Take remedial action described under section 1.141-12 of the Regulations
- iv. Take such other action as recommended by bond counsel

DEBT REFUNDING

City staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. The City will consider current or advance refunding which produce a material economic benefit and in no way impair the outstanding bond rating of the City. As a general rule, the present value savings of a particular refunding should exceed 3% of the refunded maturities and must come with the recommendation of the Finance Director. Current refunding of callable debt that generate lower present values savings than 3% will be permitted on a case-by-case basis if determined by the Finance Director and the City's financial advisor to provide worthwhile economic benefit to the City. In evaluating refunding opportunities for the City, the Finance Director and the City's financial advisor shall identify and address not only the benefits of the proposed transaction, but the potential negative impacts as well, if any.

Additional transaction costs such as bond counsel, trustee, and financial advisor shall be included in the savings calculation required above. The City's financial advisor shall produce an analysis of the implications of advance refunding or paying a forward premium vs. waiting to the current call date of the bonds. Approval of the transaction must be obtained from the State Attorney General, to the extent required by Texas law.

Interest Earnings

Interest earnings received on the investment of bond proceeds shall be used to assist in paying the interest due on bond issues, to the extent permitted by law.

Lease/Purchase Agreements

Lease funding will be for the purchase of capital assets. The length of the lease will not be greater than the expected useful life of the asset it will be used to purchase.

Proposals from Investment Bankers

The City welcomes ideas and suggestions from investment bankers and will seek to reward those firms which submit unique and innovative ideas by involving them in negotiated underwritings. Unsolicited proposals should be submitted to the City's financial advisors simultaneously with their submission to the City's Finance Department. City staff will review and confer with financial advisors to determine viability of proposals.

INTERGOVERNMENTAL RELATIONS POLICIES

Inter-Local Cooperation in Delivering Services

In order to promote the effective and efficient delivery of services, the City shall actively seek to work with other local jurisdictions in joint purchasing consortia, sharing facilities, sharing equitably the costs of service delivery, and developing joint programs to improve service to its citizens.

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 and does not provide the funding to implement them. Conversely, as appropriate, the City shall support legislative initiatives that provide more funds for priority local programs.

GRANT POLICIES

Grant Guidelines

The City shall adhere to the Grant Management Policy established by the Grants Department

Indirect Costs

The City shall recover full indirect costs unless the funding agency does not permit it. The City may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.

Grant Review

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 policy objectives. **Grant Department** shall seek Commission approval prior to submission of a grant application. Should time constraints under the grant program make this impossible, the department shall obtain approval to submit an application from the City Manager and then, at the earliest feasible time, seek formal Commission approval. If there are cash match requirements, the source of funding shall be identified to the **Finance Department** prior to application. An annual report on the status of grant programs and their effectiveness shall also be prepared.

Grant Program Termination

The City shall terminate grant-funded programs and associated positions when grant funds are no longer available unless alternate funding is identified.

FISCAL COMMISSION MONITORING POLICIES

Financial Status and Performance Reports

Monthly reports on the City's General, Utility, Bridge and Capital Projects Funds comparing expenditures and revenues to current budget, noting the status of fund balances to include dollar amounts and percentages, and outlining any remedial actions necessary to maintain the City's financial position shall be prepared for review by the City Manager and the Commission.

Five-Year Forecast of Revenues and Expenditures

A five-year forecast of revenues and expenditures, to include a discussion of major trends affecting the City's financial position, shall be prepared in conjunction of the annual budget process. The forecast shall also examine critical issues facing the City, economic conditions, and the outlook for the upcoming budget year. The document shall incorporate elements of the International City Management Association financial trend monitoring system to provide further insight into the City's financial position and to alert the Commission to potential problem areas requiring attention.

Commission Agenda Decision Recommendations

Agenda items that have a financial impact will have a recommendation by the Finance Director to ensure fiscal ability, long-term sustainability, and proactive protection of financial resources.

Status Reports on Capital Projects

A summary report on the contracts awarded, capital projects completed, and status of the City's various capital programs will be prepared **by Purchasing Department** at least quarterly and presented to the City Manager and Commission.

Compliance with Commission Policy Statements

The Financial Management Policy Statements will be reviewed annually by the Commission and updated, revised or refined as deemed necessary. Policy statements adopted by the Commission are guidelines, and occasionally, exceptions may be appropriate and required. However, exceptions to stated policies will be specifically identified, and the need for the exception will be documented and fully explained.

FINANCIAL CONSULTANTS POLICY

To employ the assistance of qualified financial advisors and consultants as needed in the management and administration of the City's financial functions. These areas include but are not limited to investments, debt administration, financial accounting systems, program evaluation, and financial impact modeling. Advisors shall be selected using objective questionnaires and requests for qualifications/proposals based upon demonstrated expertise relative to the scope of work to be performed and appropriately competitive fees.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES

Conformance to Accounting Principles

The City's accounting practices and financial reporting shall conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA).

Selection of Auditors

At most every five years, the City shall request proposals from all qualified firms, including the current auditors if their past performance has been satisfactory, and the Commission shall select an independent firm of certified public accountants to perform an annual audit of the books of account, records, and transactions, certifying the financial statements of the City and reporting the results and recommendations to the Commission.

Audit Completion

The City seeks to have its Annual Comprehensive Financial Report (ACFR) and Single Audit of Federal and State grants completed within 150 days of the close of its previous fiscal year, which ends September 30. In the event the presentation of the ACFR and Single Audit is delayed beyond the last Commission meeting in February, the City Manager shall provide a report on the status of the audit and the expected completion date of the ACFR and Single Audit to the City Commission at its first meeting in March. By State law, the City has 180 days to complete the audit.

INTERNAL CONTROLS POLICIES

Proper Authorization

Procedures shall be designed, implemented, and maintained to ensure that financial transactions and activities are properly reviewed and authorized.

Separation of Duties

Job duties will be adequately separated to reduce to an acceptable level the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of assigned duties.

Proper Recording

Procedures shall be developed and maintained that will ensure financial transactions and events are properly recorded and that all financial reports may be relied upon as accurate, complete and up-to-date.

Access to Assets and Records

Procedures shall be designed and maintained to ensure that adequate safeguards exist over the access to and use of financial assets and records.

Independent Checks

Independent Checks and audits will be made on staff performance to ensure compliance with established procedures and proper valuation of recorded amounts.

Costs and Benefits

Internal control systems and procedures must have an apparent benefit in terms of reducing and/or preventing losses. The cost of implementing and maintaining any control system should be evaluated against the expected benefits to be derived from that system.

E-COMMERCE POLICIES

Fully Integrated Financial Systems

All E-Commerce systems and procedures must fully and transparently integrate with the City's financial and accounting systems, its depository bank systems, and any other City information system which interfaces with an E-Commerce system.

Emerging Technologies

The City will work closely with its depository bank and other financial partners to evaluate and implement those new technologies that prove to be efficient and effective in pursuit of the City's E-Commerce goals.

Direct Deposits

All employees will be paid via direct deposit, excluding the employee's last paycheck.

Internet Payment Options

Working with its depository bank and other financial partners, the City will seek to develop and implement internet payment options which will allow costumers and citizens to pay bills due to the City conveniently and securely.