

FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT FINANCIAL MANAGEMENT POLICY

- Resolution 2013-01 (November 7, 2013)
- Resolution 2017-01 (April 10, 2017) Appendix A to the District's Financial Management Policy
- Changes approved at the January 12, 2022 MDD Regular Meeting. Changes ratified by:
- Resolution 2022-01 (April 13, 2022)
- Resolution 2022-03 (October 12, 2022) Adding Subsection G to Section VI., Expenditure Control
- Resolution 2024-01 (October 9, 2024) Adopting Amended Investment Policy

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I. PURPOSE STATEMENT

These policies are developed by the Municipal Development District Board to guide the Board in financial matters. The overriding goal of the Financial Management Policy is to enable the District to achieve a long-term stable and positive financial condition while conducting its operations consistent with state laws. The watchwords of the District's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Financial Management Policy is to provide guidelines for the District in planning and directing the Board's financial affairs.

The scope of these policies span accounting, investments, auditing, financial reporting, internal controls, budgeting, capital program including capitalization, revenue and cash management, expenditure control, debt management, and identity theft prevention.

II. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

- A. **ACCOUNTING** - The Board will establish the chart of accounts and will properly record and report financial activity.
- B. **FUNDS** - Self-balancing groups of accounts are used to account for financial transactions in accordance with generally accepted accounting principles. Each fund is created for a specific purpose. Funds are created and fund names are changed by Board approval either during the year or in the Board's approval of the annual operating budget.
- C. **EXTERNAL AUDITING** - The District's financial statements will be audited annually by an outside independent auditor who will conduct the District's audit in accordance with generally accepted auditing standards, generally accepted government auditing standards and contractual requirements.
- D. **EXTERNAL AUDITORS RESPONSIBLE TO BOARD** - The external auditor is accountable to the Board and will have access to direct communication with the Board.
- E. **EXTERNAL AUDITOR ROTATION** - The District will not require external auditor rotation, but may circulate requests for proposal for audit services, periodically.
- F. **INTERNAL CONTROLS** - The Board is responsible for ensuring a strong internal controls environment.

III. OPERATING BUDGET

- A. **PREPARATION** - The District's operating budget is the District's annual financial operating plan and the Board Treasurer is the Budget Officer. No later than July of each year, the Budget is submitted to the Board for changes prior to approval. Prior to the budget's fiscal year, the Budget must be approved by the Fair Oaks Ranch City Council.
- B. **REPORTING** - Periodic financial reports will be prepared in conformance with pertinent statutes, regulations and policies of the Board. Financial reports will be presented to the Board at each of its regularly called meetings and include current year revenue and expenditures and fund balances.
- C. **CONTROL** - Operating Expenditure Control is addressed in Section VI.
- D. **RECORD KEEPING** - All permanent historical budget documents will be filed with the Fair Oaks Ranch City Secretary for record keeping pursuant to State law and District resolution).

IV. FUND BALANCE / POLICY

- A. Fund balance shall mean the gross difference between fund assets and liabilities reflected on the balance sheet. The District shall report fund balances per GASB54 definitions on the balance sheet as follows:
1. *Non-spendable* – Portion of total fund balance that is not in spendable form or required to be maintained intact. Example: Prepaids.
 2. *Restricted* – Portion of total fund balance constrained for specific purposes by such grantors, bondholders, higher level of government or by law.
 3. *Committed* – Portion of total fund balance constrained to specific purposes and amounts by the Board. Only the Board can release committed funds. Example: Grants awarded by the District.
 4. *Assigned* – Portion of total fund balance the Board designates for specific purposes as expressed by the Board. Example: Infrastructure Improvements.
 5. *Unassigned* – Portion of total fund balance not identified in one of the above categories.
- B. The fund balance will be managed carefully and used wisely by the Board.

V. REVENUE MANAGEMENT

- A. **SIMPLICITY** - The District will rely on local sales tax as its main source of recurring revenue.
- B. **ADMINISTRATION** - The benefits of a revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed as appropriate for cost effectiveness as a part of the indirect cost, and cost of services analysis.
- C. **INTEREST INCOME** - Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the operating budgets which, wherever possible, will be in accordance with the equity balance of the fund from which monies were provided to be invested.
- D. **REVENUE MONITORING** - Revenues actually received will be regularly compared to budgeted revenues and variances will be investigated.

VI. EXPENDITURE CONTROL

- A. **APPROPRIATIONS** - Budget adjustments must be approved by the Board and City Council.
- B. **PURCHASING** - The District will pay from receipts, invoices and disbursement vouchers that have the approval of the Board President, date of approval, total dollar amount (excluding tax), and general ledger account code. The President can authorize up to \$2,000 in addition to annual and District approved contracts, recurring charges, and approved budgetary items. All other disbursements exceeding \$2,000 require Board approval.
- C. **PROFESSIONAL SERVICES** - Professional services will be processed through a request for qualifications as defined by the Texas local government code. The Board President may execute any professional services contract, except for insurance, less than \$25,000 provided there is an appropriation for such contract.

- D. **ADMINISTRATIVE CHARGES** – An Interlocal Agreement with the City will be maintained whereby the District will pay a management fee to the City of Fair Oaks Ranch for administrative costs performed on the District’s behalf.
- E. **PROMPT PAYMENT** - All invoices will be paid 30 days of receipt in accordance with the prompt payment requirements of State law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. However, payments will also be reasonably delayed to maximize the District’s investable cash, where such delay does not violate the agreed upon payment terms.
- F. **REIMBURSEMENTS** - The policy of the District is that employees/board members are to be reimbursed for necessary and reasonable district-related expenses incurred in the authorized conduct of business. All requests for reimbursement of expenses are subject to requirements of documentation and reasonableness, and will be honored in conformance with adopted policies, provided that the expenditure was properly authorized. See Appendix C for complete details.
- G. **DISBURSEMENT OF GRANT AWARDS** - All grant awards must comply with the Texas Local Government Code Chapter 377, and MDD policies and procedures. The requirements for the release of grant funds and grant award amount must be defined in a grant award agreement between the MDD Board and the project owner. The grant award agreement must conform to the MDD Policy for Evaluation of Development Projects. Disbursements of grant funds will be made after the project requirements are completed in accordance with the requirements set forth in the grant award agreement. On a case-by-case basis, the MDD Board may approve advance funding of a grant award by an affirmative vote of three fourths of Board members present and qualified to vote. The requirements for the advance funding arrangements must be included in the grant award agreement and should specifically address the incremental risks associated with advance funding.

VII. ASSET MANAGEMENT

- A. **INVESTMENTS** - Investments will be conducted in accordance with the Investment Policy attached as Appendix A.
- B. **CASH MANAGEMENT** - The District’s cash flow will be managed to maximize the cash available to invest.
- C. **FIXED ASSETS AND INVENTORY** - The assets will be reasonably safeguarded and properly accounted for.
- D. **CAPITALIZATION OF CAPITAL ASSETS** - The capitalization of capital assets will be conducted in accordance with the Capitalization of Capital Assets Policy attached as Appendix B.

VIII. FINANCIAL CONDITION / DEBT MANAGEMENT

- A. **NO OPERATING DEFICITS** - Current operating expenditures will be paid with current operating revenues.
- B. **GENERAL** - The District’s borrowing practices, including issuing bonds, will be conducted in accordance with state law and the Board’s Rules of Procedure.
- C. **ANALYSIS OF FINANCING ALTERNATIVES** - The District will explore other financing alternatives in addition to long-term debt including leasing, grants and other aid, developer contributions, and use of reserves or current monies.

IX. ANNUAL REVIEW

- A. The Financial Management Policy will be reviewed bi-annually or as needed by the Board President and Treasurer. Recommended amendments will be presented to the Board for approval.
- B. The Board, pursuant to Government Code §2256.005, shall adopt, annually, a resolution stating the Investment Policy has been reviewed and, record any changes made thereof.

Appendix A

INVESTMENT POLICY

I. Policy

It is the policy of the City of Fair Oaks Ranch Municipal Development District (the "District") to invest funds in a manner which will provide the highest, reasonable investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all federal, state, and local statutes governing the investment of public funds. It is also the policy of the District that the administration of its funds and the investment of those funds shall be handled as its highest public trust.

II. Purpose

The purpose of this policy is to comply with the Texas Government Code, Chapter 2256, the Public Funds Investment Act (the "Act"), and Texas Government Code, Chapter 2257, the Public Funds Collateral Act, which requires the adoption of a written investment policy regarding the investment of funds. The investment policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's funds.

III. Scope

This investment policy applies to all financial assets and funds of the District. Funds are defined in the District's audited Annual Financial Report. Funds are created by the Board unless specifically exempted by the Board and this policy.

Investments are being pooled into a pooled group fund that consists of balances from the District's funds. The strategy of pooling investments is subject to change as deemed appropriate by the Investment Officer, and subject to the provisions of this Policy.

IV. General Objectives

The primary objectives, in priority order, of the District's investment activities shall be safety, liquidity, diversification, and yield.

Safety - Safety of the principal is the foremost objective of the District. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio guarding against security defaults or erosion of market value.

Liquidity - The investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated. To the extent possible, this will be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

Diversification - Diversification of the portfolio will include diversification by maturity and market sector to manage market risk.

Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Market rate of return may be defined as the average yield of the current six-month US Treasury Bill. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Effective cash management is recognized as essential to good fiscal management. Cash Management is defined as the process of managing monies in order to ensure maximum cash availability. The District will effectively collect account receivables, practice prudent investment of its available cash, disburse payments in accordance with invoice terms and manage banking services.

V. Standards of Care

Prudence - The standard of prudence to be used by investing officials shall be the "prudent person" rule and shall be applied in the context of managing the District's overall portfolio with the objectives and priority of preservation of safety of principal, liquidity, and yield. This rule states

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived." Prudence of an investment officer's decisions shall be exercised and measured by considering the investment of all funds under the District's authority, which the investment officer had a responsibility, rather than a consideration to the prudence of a single investment, and whether the investment decision was consistent with the written investment policy.

Limitation of Personal Liability - Investment officials acting in accordance with this policy and in accord with the Prudent Person Rule shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change is reported in a timely fashion and the appropriate action is taken to control unfavorable developments.

VI. Delegation of Authority and Responsibilities

Delegation of Authority - The Board of Directors will appoint an Investment Officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. The Investment Officer shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and established written procedures.

Training In accordance with the Act, Investment Officials shall attend ongoing trainings from an independent source authorized to provide PFIA certification. Investment Officials (an Investment Committee made up of the President, Treasurer and Investment Officer) must complete at least 10 hours of investment training within 12 months of taking office or assuming duties, and shall attend a PFIA certified investment training course not less than once in a two-year fiscal period receiving no less than 10 hours of instruction relating to investment controls, security risks, strategy risks, market risk, diversification, and compliance.

Ethics and Conflicts of Interest - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions that conduct business with the District. An investment official who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. An investment official who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing the relationship. A statement required under this subsection must be filed with the Texas Ethics Commission. **Board of Directors Responsibilities** – The Board of Directors hold ultimate fiduciary responsibility for the investment portfolio. The Board of Directors will appoint an investment officer, review quarterly reporting, approve authorized broker/dealers, and annually review and adopt the Investment Policy by Resolution.

VII. Internal Controls

The Board President and Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse.

The internal control shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (a) the cost of a control should not exceed the benefits likely to be derived and (b) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall focus on the following points:

- Separation of duties to prevent collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Clear delegation of authority
- Documentation of transactions

The District's Investment Officer shall perform an internal compliance audit of management controls on investments and adherence to investment policies in conjunction with the annual financial audit.

VIII. Safekeeping and Custody

Safekeeping – All securities purchased by the District under this Policy, excluding Investment Pools and Mutual Funds, shall be settled on a delivery versus payment basis and held in safekeeping by an independent third-party financial institution approved by the District. All safekeeping arrangements will be approved by the Investment Officer and an agreement of the terms executed in writing. The safekeeping institution shall be required to issue safekeeping receipts to the District including all pertinent information for each security and clearly indicating the ownership by or pledge to the District.

Authorized Financial Dealers and Institutions - The Investment Officer will maintain a list of financial institutions and security broker/dealers authorized to provide investment/depository services. The list of qualified brokers/dealers shall be reviewed and adopted annually by the Board of Directors as part of the investment policy resolution. All authorized brokers/dealers will be provided with a copy of our investment policy and have a qualified representative sign a policy certification stating they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls in an effort to prevent unauthorized investment transactions not authorized by this Policy, except to the extent that this authorization is dependent on an analysis makeup of the District's entire portfolio or requires an interpretation of subjective investment standards. A broker may be removed from eligible status, without notice, at the District's sole discretion.

Those firms that request to become qualified bidders for securities transactions must provide one or more of the following as applicable:

- Proof of Financial Industry Regulatory Authority (FINRA) certification and FINRA's Central Depository Registration (CRD) number
- Proof of Texas State Securities registration
- Annual audited financial statements,
- Proof of National Association of Security Dealers certification,
- Trading resolution

Each pool the District participates will be provided a copy of the District's current investment policy and have a qualified representative sign a compliance certification stating that they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls to preclude unauthorized investment transactions in the entity's investment policy, except to the extent authorization is dependent on an analysis makeup of the District's entire portfolio, requires an interpretation of subjective investment standards.

The Investment Officer of the District may not use any dealer or institution which has not met the requirements above.

Investment Management Firms – The District may, at the Board of Director’s approval, contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for investment and management of its public funds or funds under its control. This contract term shall be a maximum of 2 years with renewal or extensions subject to approval by the Board of Directors by resolution.

Depository Agreement - At least every five (5) years, a primary services depository shall be selected by the District through a competitive request for proposal (RFP) or bid process in accordance with Section 105 of the Texas Government Code. In selecting this depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. This institution shall be used for normal banking services including disbursements, collections, and safekeeping. Other banking institutions from which the District may purchase certificates of deposit will also be designated as a depository and must execute a written agreement in accordance with the provisions of this Policy if collateral is required.

Delivery vs Payment - All trades except for investment pools and mutual funds will be executed by delivery vs payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities and collateral will be held in the District’s name by a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited.

Competitive Bidding – All investment transactions, excluding market mutual funds, local government investment pools and securities made at prevailing market rates, shall be made on a competitive basis to assure that the District is receiving fair market prices. Bids, of at least three competitive offers, may be orally, in writing, electronically, or in any combination of those methods.

Monitoring Credit Ratings – The Investment Officer shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by the Policy, the Investment Officer will notify the Board President of the loss or rating immediately and make a recommendation as to the conditions affecting the rating and possible loss of principal with available liquidation options.

Monitoring Insurance Status – The Investment Officer shall monitor the status and ownership of all banks issuing brokered CDs owned by the District based upon information from the FDIC / NCUA / SIPA. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer will immediately liquidate any brokered certificate of deposit which placed the District above the FDIC / NCUA / SIPA insurance level.

IX. Authorized and Suitable Investments

Eligible Investments - Assets of the District may be invested in the following instruments as authorized by the Public Funds Investment Act (Section 2256). Only those instruments listed in this section are authorized and will be used as needed to maintain an appropriate diversified portfolio. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. Prudent measures will be taken to liquidate any investment that drop below the required minimum rating in accordance with the District’s policy.

- a. Local Government Investment Pools which meets the requirements of Chapters 2256.016-2256.019 of the Public Funds Act which include being rated no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service and strive to maintain a \$1 net asset value.
- b. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-

backed securities.

- c. Certificates of Deposit CDs issued by a depository institution that has its main office or a branch in Texas. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law.
- d. Brokered Certificates of Deposit issued by one or more federally insured depository institutions, wherever located within the United States, delivered versus payment to the District's safekeeping agent. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law. Before purchase, the Investment Officer must verify the FDIC/NCUA status of the bank to assure the bank is FDIC/NCUA insured.
- e. No-load Money Market Mutual Funds that comply with SEC Rule 2a-7 and 1) are registered and regulated by the Securities and Exchange Commission and provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, seek to maintain a net asset value of \$1 per share, and 43) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Existing Investments – The District is not required to liquidate investments which were authorized investments at the time of purchase under the Public Funds Investment Act (Section 2256.017).

Collateralization - Collateralization will be required on all funds on time and demand deposits with a depository bank, other than investments, above the FDIC coverage by pledged collateral. To anticipate market changes and provide a level of security, the collateralization level will be not less than one hundred two percent (102%) of market value of principal and accrued interest. All collateral must be pledged to the District and shall be held by an independent third-party institution approved by the District outside the holding company of the pledging bank. A depository/collateral agreement shall be executed between the District, district depository, and custodian. The pledging institution will monitor and maintain the margins daily. The custodian will provide a monthly report of collateral pledged to the District.

Authorized Collateral - Only securities prescribed as eligible investments under the Public Funds Investment Act qualify as pledged securities and are limited by the District as appropriate.

X. Investment Parameters

Diversification - See Section IV; General Objectives

Maximum Maturities - To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. The average dollar-weighted maturity of an individual investment of the District's portfolio shall not exceed one (1) year. The maximum allowable maturity of an individual investment shall be no more than two (2) years.

XI. Performance Standards

The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, diversification, and yield). The District shall pursue a conservative buy-and-hold portfolio and swaps will be prohibited. However, securities may be sold before they mature if market conditions present an opportunity for the District to benefit from the trade. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. As the benchmark, the Investment Officer shall determine whether market yields are being achieved by comparing the portfolio market yield to the three (3) month U.S. Treasury Bill, the six (6) month U.S. Treasury Bill and the two (2) year U.S. Treasury Note.

XII. Investment Strategies

The District may maintain separate portfolios, or one commingled portfolio for individual funds that are managed according to the terms of this Policy. Investments may be pooled or invested for the benefit of one or more funds. If pooled, principal and interest income is distributed to each respective fund on a pro rata basis. Whether investments are pooled or invested separately is decided by the Investment Officer based upon which method is most beneficial to the District for the investment strategies established. The investment strategy for portfolios established after the annual Investment Policy review and adoption will be managed to ensure that it will meet all the requirements established by the District's investment policy and the Public Funds Investment Act.

The District's portfolio is maintained to meet anticipated cash needs for operations, capital projects and debt service. In order to ensure the ability to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the investment portfolio shall not exceed one (1) year. The objectives of this portfolio are to ensure safety of principal; ensure adequate investment liquidity; limit market and credit risk through diversification; and attain the best feasible yield in accordance with the objectives and restrictions set for in this Policy.

XIII. Reporting Methods

As required by Government Code 2256.023, on a quarterly basis, the Investment Officer shall prepare and submit to the Board, a written report for the preceding quarter in accordance with the Public Funds Investment Act. The report will include the following, at a minimum:

- A description of the Investment position of the District on the date of the report.
- A summary statement for each pooled fund group stating the beginning market value for the period, additions and changes to the market value during the period, and the ending market value for the period, and any fully accrued interest.
- Book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
- Maturity date of each separately invested asset that has a maturity date.
- Account or fund or pooled group fund of the District for which each individual investment was acquired.
- Statement of compliance of the investment portfolio of the District with the Act and Investment Policy.

Market prices for market value calculation of the investment portfolio will be calculated quarterly by independent sources.

If the District invests in any investments other than money market mutual funds, investment pools, or depository bank investment accounts then the District's internal controls and quarterly reports shall be reviewed by the District's independent auditor during the annual audit process.

XIV. Investment Policy Adoption

The Investment Policy shall be adopted by Resolution as part of the Financial Management Policies. The policy shall be reviewed and adopted by Resolution annually by the Board of Directors.

List of Qualified Brokers/Dealers

<u>Frost Bank</u> <u>111 W. Houston Street</u> <u>San Antonio, TX 78205</u>	<u>Manuel Long</u> <u>Vice President - Public Finance</u> <u>manuel.long@frostbank.com</u>	<u>(210) 220-5372</u> <u>(210) 262-9081 C</u>
<u>Frost Bank Securities</u> <u>111 W. Houston Street</u> <u>San Antonio, TX 78205</u>	<u>Eileen Slater</u> <u>Sr. Vice President - Capital Markets</u> <u>eileen.slater@frostbank.com</u>	<u>(210) 220-5546</u> <u>(210) 404-8815 C</u>
<u>TexPool Participant Services</u> <u>1001 Texas Avenue</u> <u>Suite 1150</u> <u>Houston, TX 77002</u>	<u>Denise Hamala</u> <u>Unit Manager</u> <u>denise.hamala@FederatedHermes.com</u>	<u>(866) 839-7665</u>
<u>Texas CLASS</u> <u>6907 Shavelson St.</u> <u>Houston, TX 77055</u>	<u>Zach Brewer</u> <u>Director - Investment Services</u> <u>zach.brewer@texasclass.com</u>	<u>(281) 642-4350</u>
<u>Hilltop Securities Inc.</u> <u>1201 Elm Street</u> <u>Suite 3500</u> <u>Dallas, TX 75270</u>	<u>Gilbert Ramon</u> <u>Vice President</u> <u>gilbert.ramon@hilltopsecurities.com</u>	<u>(713) 654-8606</u> <u>(713) 724-4178 C</u>
<u>UBS Financial Services, Inc.</u> <u>1780 Hughes Landing Blvd.</u> <u>3 Hughes Landing, Suite 200</u> <u>The Woodlands, TX 77380</u>	<u>Richard Ebert</u> <u>First Vice President - Wealth Management</u> <u>richard.ebert@ubs.com</u>	<u>(281) 362-6340</u>
<u>Stifel, Nicolaus & Company, Inc.</u> <u>2107 Elliott Avenue</u> <u>Suite 208</u> <u>Seattle, WA 98121</u>	<u>Josh Gorham</u> <u>Managing Director</u> <u>gorhamj@stifel.com</u>	<u>(206) 443-7260</u> <u>(206) 963-1280 C</u>

CAPITALIZATION POLICY FOR CAPITAL ASSETS

The purpose of this policy is to establish a capitalization policy for auditing purposes and, to set standards of accounting for City of Fair Oaks Ranch Municipal Development District according to Government Accounting Standards Board Statement 34 (and subsequent relevant guidance) with regard to categories and threshold amounts to be capitalized.

SECTION 1. Capital assets categories and thresholds are:

Land/land improvement	Any amount
Buildings/building improvements	\$25,000
Infrastructure	\$25,000
Personal property	\$ 5,000
Leasehold improvements	\$25,000

SECTION 2. For clarification purposes the above items are generally defined as, but not expressly limited to the following definitions:

Land is the purchase price or fair market value at time of gift, any commissions, professional fees, land excavation, fill, grading, drainage, demolition of existing building (less salvage), property removal (relocation or reconstruction) of others (railroad, telephone, and power lines), date of purchase accrued mortgage interest and any unpaid taxes and right of way cost. Land improvements are considered to be fencing, landscaping structure(s), parking lots, driveway, recreation areas, septic systems, and pavilions.

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls. A building improvement must extend the life of the building or increase the value of the building. Examples of capitalized building improvements are structural changes & installation or upgrade of roofing, heating & cooling systems, electrical, etc.

Infrastructure is usually considered stationary and can be preserved for a significantly greater number years than most capital assets. They are often linear and continuous in nature. Infrastructure improvements should extend the useful life and /or increase the value by 25% of the original cost or life period. Examples of infrastructure are streets, curbs, gutters, sidewalks, fire hydrants, bridges, dam, drainage facility, radio tower, water main and distribution lines, light systems and signage.

Personal property is fixed or movable tangible assets to be used for operations that has a life beyond one year. Examples of personal property are vehicles, other motor vehicles, furnishings & equipment.

Leasehold improvements are the construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease.

REIMBURSEMENTS

GENERAL POLICY

Travel expenses will be reimbursed for travel within the continental United States only. Reimbursement is based upon the most economical conveyance that is reasonably available. In some cases, the District may prepay such expenses as registration fees, hotel costs, and/or airline or other public transportation costs directly to the entity involved.

PROFESSIONAL MEMBERSHIPS AND SEMINARS

Subject to the approval of the Board, membership to a professional association related to the District will be reimbursed for dues. Necessary travel expenses for meetings, conferences, or seminars judged to offer special training or information of value to the attendee, and if the meeting, conference or seminar is related to the District, reimbursement of authorized expenses will be made.

TRAVEL AUTHORIZATION AND REIMBURSABLE EXPENSES

In and out of state travel is permissible provided that it is authorized in advance by the Board President and does not exceed budgetary limitations.

Travel. Necessary and authorized travel expenditures in the conduct of business will be reimbursed for actual costs of reasonable and documented expenses (furnished receipts). Reimbursable expenses will be for food, registration, lodging, parking, tolls, transportation, and reasonable gratuities. Conference registration checks will be made payable only to the organization sponsoring the conference. When private automobiles are used, reimbursement is allowed on the basis of actual mileage traveled at the prevailing federal per-mile rate for business use of a personal vehicle as noted by the Internal Revenue Service.

Overnight Travel. When travel is required for more than one consecutive day, thereby spending the night, hotel cost, and transportation will be submitted for reimbursement based on reasonableness of the expense and subject to the approval of the Board President. The District pays the single standard room hotel rate only. Parking and meals will be paid based on presentation of receipts and within a reasonable cost.

Expense Report. Within five days of the date the authorized travel was concluded, the attendee shall complete an expense report documenting actual expenses incurred on the trip which were not prepaid directly by the District to the entity involved. A reimbursement check will be issued as approved by the Board President.

USE OF PERSONAL VEHICLE

Use of a personal vehicle is authorized when on official District business as determined by the Board President. Reimbursement will be for actual miles driven, as documented at the prevailing federal per-mile rate for business use of a personal vehicle as noted by the Internal Revenue Service. The shortest distance between points of departure and destinations for travel by personal vehicle is to be reported.

OTHER EXPENSES

Other incidental expenses are governed under the terms defined in Section VI. B. of this document.

LIMITATIONS

Costs of personal entertainment, amusements, social activities, spouse's or others' expenses, alcoholic beverages, traffic citations, or illegal activities are not reimbursable.

The District reserves the right to limit the availability of education/training reimbursement due to budgetary or other reasons.