

EXHIBIT A

CITY OF HUTCHINS FINANCIAL POLICIES



Financial Management Policies

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Prepared by the Finance Department

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I. PURPOSE STATEMENT

The policies set forth below provide guidelines to enable the City staff to achieve long-term, stable financial conditions while conducting daily operations and providing services to the community.

The long-range policies regarding financial management are as follows:

1. Exercise a discipline which allows the City to retain a sound financial condition.
2. Give recognition to the community's needs and ability to pay.
3. Strive to retain the best possible rating on bonds.

The purpose of these policies is to provide guidelines for City staff in planning and directing the City's day-to-day financial affairs. The scope of these policies cover accounting, auditing, financial reporting, internal controls, fiscal budgeting, capital programs, revenue management, expenditure control, debt management, financial condition and fund reserves.

II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

A. Accounting

The City's Finance Director is responsible for establishing the City's chart of accounts and for properly recording financial transactions.

B. Funds

Self-balancing groups of accounts are used to account for City financial transactions in accordance with generally accepting accounting principles (GAAP). Each fund is created for a specific purpose except the General Fund which is used to account for all transactions not accounted for in other funds. Funds are created by the Finance Director and approved by the City Administrator.

C. External Auditing

The City will be audited annually by outside independent accountants (auditors). The auditors must be a reputable CPA firm and must demonstrate experience in the field of local government auditing. They must conduct the City's audit in accordance with GAAP, governmental accounting and auditing standards (GAAS) and be knowledgeable in the Government Finance Officers Association (GFOA) Certificate of Achievement Program. The City will follow a five-year rotation of outside independent auditors. The audited financial statements should be prepared within 180 days after the close of the fiscal year.

D. External Financial Reporting

The City will prepare and publish externally an Annual Financial Report for each fiscal year which begins October 1st and ends September 30th.

E. Internal Financial Reporting

The Finance Department will prepare and issue timely financial reports on the City's current fiscal status. These reports include the following:

1. Quarterly budget status reports to the City Administrator, and all department heads
2. Quarterly budget status reports to the Mayor and City Council;
3. Quarterly cash and investment reports to the Mayor and City Council.
4. Annual budget amendments to the City Administrator, Mayor and City Council if deemed necessary

III. INTERNAL CONTROLS

A. Written Procedures

The Finance Director is responsible for developing written guidelines on accounting, cash handling and other financial matters which will be approved by the City Council. The Finance Department will assist Department Directors, as needed, in tailoring such guidelines to fit each department's requirements. Financial policies will be reviewed and approved by the City Council at least every two years.

B. Department Directors' Responsibilities

Department Directors are responsible for ensuring that proper internal controls are followed throughout his or her department, that all guidelines on accounting and internal controls are implemented and that all independent auditor control recommendations are addressed.

C. Cash Management

The City's cash flow will be managed to maximize the investable cash in accordance with the City's investment policy.

D. Capital Assets

Capital assets classifications include buildings and improvements, machinery and equipment, vehicles, and infrastructure. Such assets will be reasonably safeguarded, properly accounted for and prudently used. Capital asset inventories will be updated at least annually.

1. Capital assets will be capitalized and depreciated over the useful life of the asset when the cost of the asset is \$5,000 or greater;
2. The capitalization threshold of \$5,000 will be applied to the individual items rather than to a group of similar items (i.e., desks, chairs, computers, etc.); and
3. To maintain control over high-risk items, such as electronic equipment and weapons, high-risk items costing \$250 - \$4,999 will be monitored tagged, and tracked as part of inventory.

IV. FISCAL BUDGETING

A. Operating Budget

The City's operating budgets are the City annual financial operating plans. The operating budgets' basis of accounting will be non-GAAP and will be converted to GAAP when presented in the Annual Financial Report. This method does not incorporate year-end accruals into the budget document when the annual budgets are prepared. Budgeted revenues and expenditures will be compared to actual revenues and expenditures for internal financial reporting purposes and converted to GAAP for external reporting purposes with reconciliations between the two basis.

B. Balanced Budgets

Currently available unassigned operating revenue shall be sufficient to support current operating expenditures. Temporary shortages or operating deficits can and do occur; however, they are not tolerated as extended trends. Measures should be developed to provide additional revenue and/or reduced expenditures to eliminate operating deficits when necessary.

C. Planning

The budget process will be coordinated to identify major policy issues for City Council consideration well in advance of the budget approval date for proper analysis and accurate decision making.

D. Budgetary Control

1. The City Administrator's level of budgetary control is at the fund level for all City funds. Changes in budgeted expenditure appropriations at the fund level require approval of the City Council.
2. Department Directors' level of budgetary control is at the department level. Modifications within and between a respective department's operating categories are allowed except for personnel costs and capital expenditures. Personnel costs and capital expenditure modifications require the approval of the City Administrator.
3. Budget amendments for appropriations at the fund level must be approved by the City Council for all City funds.

V. CAPITAL PROGRAMS

A. Capital Improvement Programs

Capital improvement programs will include plans for future years as well as future maintenance and operational costs. Capital improvement programs and planning should include a minimum of five (5) years. Capital project funds will be accounted for in multi-year funds that cross fiscal years and do not close until the project is completed.

B. Capital Budgets

Capital project budgets will include all capital project fund expenditures as well as all funding sources. Capital projects financed through bond proceeds shall be financed for a period not to exceed the useful life of the project. Unspent bond proceeds will be transferred to the Debt Service Fund at the completion of the capital project.

C. Alternate Resources

Where applicable, assessments, impact fees and/or other user-based fees should be used to fund capital projects.

VI. REVENUE MANAGEMENT

A. Diversification and Stability

A diversified and stable revenue system will be maintained to shelter the City from short-run fluctuations in any one revenue source.

B. Unpredictable Revenue

The City will try to understand its revenue sources, and enact consistent collection policies so that assurances can be provided that the revenue base will materialize according to budgets and plans. Use of unpredictable revenue will depend upon management's determination whether the revenue is considered a one-time revenue or will recur annually.

C. Revenue Monitoring

Revenues actually received will be regularly compared to budgeted revenues. Significant variances will be investigated and reported in the appropriate reports.

D. Revenue Collections

The City shall maintain high collection rates for all revenues by monitoring monthly receivables. The City shall follow an aggressive, consistent, yet reasonable approach to collecting revenues to the fullest extent allowed by law for all delinquent taxpayers and others overdue in payments to the City.

E. Write-Off of Uncollectible Accounts (Excluding Property Taxes)

Uncollectible accounts shall be written off annually at year end and upon approval of the City Administrator. The write-off of uncollectible accounts is a bookkeeping entry only and does not release the debtor from the debt owed to the City.

F. Fees and Charges

The City will maximize utilization of user charges in lieu of property taxes for services that can be individually identified and where the costs are directly related to the level of service. There will be periodic review of fees and charges to ensure that fees provide adequate coverage of costs of service.

G. One-time Revenues

One-time revenues will be used only for one-time expenditures and will not be used for ongoing operations. Care will be taken not to use these revenues for budget balancing purposes.

H. Restricted Revenues

When an expenditure is incurred for purposes for which both restricted and unrestricted revenues/fund balance is available, the City considers restricted funds to have been spent first.

I. Sufficiency

The benefits of revenue shall exceed the cost of producing the revenue.

J. Utility Rates

The City shall review and adopt utility rates that shall generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital needs.

VII. EXPENDITURE CONTROL

A. Appropriations

The City adopts annual appropriations at the fund level for all City funds. Any increase in budgeted appropriations at the fund level must be approved by the City Council.

B. Encumbrances

All appropriations lapse at fiscal year-end. Encumbrances shall be rolled to the next fiscal year and added to the current year's budgeted appropriations.

C. Purchasing

All purchases shall be in accordance with both the City's purchasing policy and State law. In the event that State law and City policy conflict, the strictest policy will be followed.

D. Prompt Payment

All invoices will be paid upon thirty (30) days of receipt in accordance with State law. Procedures will be used to take advantage of all cost effective purchase discounts. Payments will be processed to maximize the City's investable cash.

E. Department Directors' Responsibilities

Each Department Director is held accountable for meeting program objectives and monitoring the use of budget funds expended to ensure compliance with the annual appropriated budget approved by the City Council.

VIII. DEBT MANAGEMENT

A. Debt Service Requirements

The Finance Department will determine annual debt payment requirements as well as funding sources during the preparation of the annual budget for the Debt Service Fund and as per the City's Debt Management Policy.

B. Self-Supporting Debt

When appropriate, self-supporting revenues will pay debt service in lieu of property taxes. The Debt Service Fund's current fiscal year debt payment requirements shall not exceed debt service property tax, self-supporting revenue and balances carried forward from the prior year.

C. Debt Covenants

The Finance Department will diligently monitor the City's compliance to its bond covenants. The Finance Department will maintain ongoing communications with bond rating agencies about the City's financial condition and follow a policy of full disclosure on every financial report.

D. Debt Capacity and Issuance

The City has and will continue to retain a Financial Advisor in connection with any debt issuance.

IX. FUND BALANCE

A. Purpose

The purpose of this policy is to establish a key element of the financial stability of the City of Hutchins by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability and it is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances. This policy will ensure the City maintains adequate fund balances in the City's various operating funds with the capacity to:

1. Provide sufficient cash flow for daily financial needs,
2. Secure and maintain investment grade bond ratings,
3. Offset significant economic downturns or revenue shortfalls, and
4. Provide funds for unforeseen expenditures related to emergencies.

B. Definitions

Fund Equity

A fund's equity is generally the difference between its assets and its liabilities. Fund equity is affected by the results of each year's operations [revenues over (under) expenditures].

Fund Balance

The fund equity of a governmental fund for which an accounting distinction is made between the portions that are spendable and non-spendable. Fund balance is classified into five categories:

- 1) **Non-spendable fund balance** – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, or prepaids) or because they must remain in-tact such as the principal of an endowment.
- 2) **Restricted fund balance** – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.
- 3) **Committed fund balance** – includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may be charged or lifted only by the Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- 4) **Assigned fund balance** – includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds, other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – the amounts in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

C. City Policy

Committed Fund Balance

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City's Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may

be determined in the subsequent period (i.e. the Council may approve the calculation or formula for determining the amount to be committed).

Assigned Fund Balance

The City Council authorizes the City Administrator as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

X. FINANCIAL CONDITIONS AND RESERVES

A. Minimum Unassigned Fund Balance

The City's *goal* is to achieve and maintain an unassigned fund balance in the General Fund equal to seventy-two (72) days of total expenditures (excluding capital expenditures and operating transfers); and in the Water/Sewer Fund a balance equal to seventy-two (72) days of total expenditures (excluding capital expenditures and operating transfers). The City considers a balance of less than seventy-two (72) days to be cause for concern, barring unusual or deliberate circumstances. In the event the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in the next fiscal year to restore the balance.

B. Replenishment of Minimum Fund Balance Reserves

If unassigned fund balances in either fund *unintentionally* falls below seventy-two (72) days, or if it is anticipated that at the completion of any fiscal year, the projected unassigned fund balance will be less than seventy-two (72) days, the City Administrator shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow or within a three (3) year period, whichever comes first. The plan shall detail the steps necessary for the replenishment of fund balances as well as an estimated timeline for achieving such. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the City, then the Council shall establish an extended time line for attaining the minimum balance.

C. Order of Expenditure of Fund Balances

If an expenditure meets the criteria of multiple categories of fund balance, first spend the most restricted funds before moving down to the next most restrictive category with available funds.

D. Appropriation of Unassigned Fund Balance

Appropriation from the minimum unassigned fund balance shall require the approval of the Council and shall be utilized only for one-time expenditures, such as capital expenditures, and not for ongoing expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted.

The Council may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

E. Monitoring and Reporting

The Director of Finance shall be responsible for monitoring and reporting the City's various reserve balances. The City Administrator is directed to make recommendations to the Council on the use of reserve funds both as an element of the annual operating budget submission and from time-to-time throughout the fiscal year as needs may arise.

Compliance with the provisions of the policy shall be reviewed as a part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures.

XI. GRANTS

A. Solicitation

It is the responsibility of City Departments to locate grant sources, determine the appropriateness of the grant, prepare council communications regarding grant applications and/or grant offers, and draft grant applications for submission for grants which would be cost beneficial and meet the City's objectives.

B. Authority

The City Council determines the goals and priorities of the City; therefore, all grant-funded activities/programs are assessed and all grant applications are approved by the City Council to assure that (1) the activity/program is consistent with these goals and priorities; (2) grant financial assistance is needed; and (3) grant proposals and budgets accurately reflect these goals and needs. Any potential grants shall be examined for matching requirements so that the source and availability of these funds may be determined before the grant application is made.

C. Budgeting

A comprehensive needs assessment is conducted and approved by the City Council during the annual budget process. This assessment will be used for developing all Federal and State grant budgets. Depending on the type and amount of grant, the budget process may be done during the writing of the grant or after amounts are awarded.

D. Applicable Laws

Federal grants are governed by, and the City shall adhere to, the Federal Register Title 2, Subtitle A, Chapter II, Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

State grants are governed by, and the City shall adhere to, Local Government Code Title 7, Chapter 783 – *Uniform Grants Management Standards* issued by the Governor's Office of Budget and Planning for the State of Texas.

E. Supplement Not Supplant (Federal Grants)

The City has implemented guidelines to ensure compliance with Federal fiscal requirement of supplement, not supplant. The purpose of these procedures is to ensure that the level of State and local support for programs remain at least constant and is not replaced by Federal funds. Federal funds are used to supplement (add to, enhance, to expand, create something new, increase) the funds available from non-Federal sources, and not to supplant (replace or take the place of) the existing non-Federal funds.

F. Procurement

In addition to City procurement policies and guidelines as outlined in the City's Purchasing Policy, all applicable procurement requirements of Federal and State grant fund regulations, other applicable laws and regulations, apply to the use of grant funds.

G. Compliance

The City shall comply with **specific** terms and conditions as set forth in Federal and State Grant Award Notices (GANs). GANs may also include **general** terms and conditions. Should there be any inconsistency between the (1) **specific** terms and conditions and (2) **general** terms and conditions, **specific** terms and conditions will govern.

If **general** and **specific** terms and conditions conflict with City policies and procedures, the most conservative term or condition will govern.

H. Management

Grant management lies within each Department of the City under the direction of the Department Director. Department Directors are accountable to the City Administrator, City Council, and Finance Department.

XII. REVIEW AND REPORTING

A. Annual Review

These financial management policies will be reviewed administratively by the City Administrator at least annually, prior to preparation of the annual budget and will be presented to the City Council for confirmation of any significant changes.

B. Reporting

The Finance Director will report annually to the City Council on compliance with these policies.