

TOWN OF PROSPER ADMINISTRATIVE REGULATIONS

CHAPTER 21:CAPITAL PROJECTS MANAGEMENT POLICY

SECTION 21.01: PURPOSE AND OVERVIEW

This policy will help guide the Finance Department and affected staff in other departments to ensure the proper accounting for and management of large multi-year capital projects and related transactions whether for infrastructure, buildings or other improvements. The rapid growth experienced by the Town has resulted in on-going capital budgets that are much larger and much more complex than the Town's operating budgets. Complexity includes multiple types of purpose restrictions, multiple funding sources and vehicles each with its own statutory requirements, developer agreements that are different for every development and extended timelines that combined with staff turnover can create accounting gaps and lapses.

As a tax supported municipality, it is the responsibility of the Town to report capital activities in conformance with Generally Accepted Accounting Principles (GAAP) while also demonstrating compliance with all federal, state, debt related covenants and other contractual requirements.

SECTION 21.02 SCOPE

This policy applies to all capital projects constructed by the Town that are in excess of \$250,000 and accounted for in a capital project fund. This is regardless of funding source or sources. This policy is designed work with and complement related administrative policies including Chapter 9: Grant Management, Chapter 11: Purchasing, Chapter 15: Debt Management Policy, Chapter 16: Debt Post Issuance Policy, and Chapter 17: Financial Management Policy.

SECTION 21.03 ACCOUNTING, AUDITING AND FINANCIAL REPORTING

Accounting for capital projects will be in conformance with GAAP and Governmental Finance Officer Association (GFOA) Best Practices. Capital Project Funds will be used for both budgeting and for financial reporting. A separate capital project fund will be established for each major category of purpose restriction. Purpose restrictions will typically originate from the categories in bond referendums such as Parks, Public Safety and Streets or capital grants for a specific project. It is the responsibility of all Town departments to furnish finance upon signing, all agreements that are capital in nature. It will be the responsibility of the Finance Department to analyze upon receipt any capital contract or agreements for the proper accounting treatment

including the timing of recognition. Types of agreements include but are not limited to Developer Agreements, TIRZ Agreements, utility relocation reimbursements paid to the Town by other jurisdictions performing project within the Town, Grant agreements and payments to other jurisdictions constructing infrastructure in the Town. Finance will also maintain a list of all active capital related agreements that will be reviewed at year end for proper accounting treatment.

Per GAAP, payments to the Town by developers are not recorded as revenues until the payment is no longer refundable. This practice applies to standard developer escrow arrangements. Often, however, development agreements will allow developers to be reimbursed for infrastructure improvements they construct with the reimbursement being funded through Impact Fees paid by the home builders that bought the developer's lots. In this case, the Finance Department must work with Development Services (Building Inspections) so that all impact fees subject to developer commitments are recorded in a unique account as a restricted asset and related revenue. Impact fees paid in TIRZ zones may also have associated commitments with proper accounting treatment determined at the signing of the agreements and communicated to all affected departments.

Agreements with other government jurisdictions constructing roadways or other infrastructure within the Town will often require participation by the Town to obtain desired features whether aesthetic or functional or conversely provide reimbursement to the Town for utility or other relocations required to complete the project. These agreements are signed prior to project commencement but the payment to/from the other jurisdiction will not be made until project closeout several years later. It is important that the Town recognize the transaction in accordance with GAAP which often requires recognition prior to project closeout when the related payment is received or made.

Developer contributions of infrastructure must be recorded at cost or if not available, acquisition value (similar to estimated cost) upon donation which is normally final acceptance. Engineering Services must track all donated infrastructure throughout the year for submission to Finance.

Notes to the Financial Statements are an integral part of the financial statements and must be complete. The annual review of all active capital agreements should also include scrutiny as to whether additional note disclosure is required. The most common types of note disclosures that might be omitted are Commitment and Contingencies and Subsequent Events.

SECTION 21:4 BUDGETTING

Prospective Capital Projects are prioritized and recommended to full Council for approval by the Capital Improvement Plan Sub-Committee of Council. New projects are typically added once a year as part of the annual budget process through adoption of the capital project fund budgets. Budgets in the Capital Projects Fund are on a “project” basis and do not expire until the project is complete. It is the responsibility of Finance and all Town Departments that have a capital project to close projects as soon after completion of the project as practical. Any budget savings realized upon closing of an account will be reassigned to a contingency account in that fund.

Detailed capital project reports should be prepared throughout the year by the Finance Departments and provided to all Town departments that have an ongoing capital project. Using these reports, projects should be evaluated periodically both for adequacy and for potential surplus. At the point that either becomes reasonably certain, the budget should be adjusted with approval by the CIP Sub-Committee at their next meeting. When the project budget is adjusted, the contingency budget will be adjusted up or down as needed. In this way contingency will reflect balances available for appropriation.

SECTION 21.5 INTERNAL CONTROLS

Internal Control write-ups will incorporate the procedures included herein and any additional detail including account numbers and specific procedures to ensure consistent accounting treatment regardless of turnover.

The Town of Prosper Capital Project Management Policy was approved by Council action on xxx, 2023

Mario Canizares, Town Manager