

Financial Management Policies

Effective date October 1, 2026

The intent of these Financial Policies is to enable the City of Richwood, Texas to achieve a long-term, stable and positive financial condition while conducting its operations consistent with the Council-Manager form of government as established by the City Charter. The more specific purpose of the Financial Policies and Administrative Procedures is to provide guidelines for the financial management staff in planning and directing the City's day-to-day financial affairs and in developing recommendations to the City Manager and to the City Council.

The scope of these policies spans:

- Operating Budget Management
- Accounting and Financial Reporting
- Revenue Management
- Expenditure Control
- Financial Position and Fund Balances
- Cash Management and Internal Controls
- Debt Management
- Capital Assets Policy
- Internal Control

These are designed to help the City by:

Presenting fairly and with full disclosure the financial position and results of financial operations of the City in conformity to GAAP, and

Determining and demonstrating compliance with finance-related legal and contractual issues in accordance with provisions of the Texas Local Government Code, the City Charter and other pertinent legal documents and mandates.

General Implementation and Compliance Guidelines

Oversight Responsibility. An oversight committee should be designated to perform the function of:

- Fiscal Policy Review
- Auditor Selection Recommendation
- Investment Policy Review and Guidance
- Annual Review

Based upon the results and recommendations of the Committee review, the Council will annually approve the fiscal policies.

Implementation and Compliance. The Director of Finance will be accountable for implementing these policies and will to the best of her or his knowledge make the City Manager and the City Council aware of any variances in practice from these policies or

any other deviation from prudent financial practices in accordance with GAAP, the City Charter, the Texas Local Government Code and other state laws or ethics of the profession.

1. Operating Budget Management

1.1 Overview

Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The City's operating budget is the City's annual financial operating plan.

1.2 Preparation

The Finance Director shall prepare expanded budget preparation and management procedures as part of the Finance Department Standard Operating Procedures Manual. These procedures shall be within the guidelines as provided in the policies stated below and shall be reviewed on an annual basis and updated, as necessary.

The budget shall include the six basic segments for review and evaluation listed below:

1. Salaries and Benefit costs
2. Professional Services and Supplies
3. Maintenance and Repair
4. Capital purchases and supplemental projects/programs
5. Debt
6. Projected Revenues

A combined budget summary shall be included with scheduled interfund transfers. Fund balances will be identified as restricted, unrestricted, designated and/or undesignated.

1.3 Duties of City Manager - Budget Execution and Financial Management

The budget is prepared by the Finance Director with the cooperation of all City departments and is submitted to the City Manager who makes necessary changes and transmits the documents to the City Council. The budget should be presented to the City Council on or before the first day of the eleventh month of the fiscal year.

In accordance with the City Charter:

The City Manager shall submit to the Council a budget for the ensuing fiscal year and an accompanying message.

The City Manager's budget message shall include:

1. An outline of the proposed financial programs for the next fiscal year with explanations of any changes from previous years in expenditures and major changes of policy and a complete statement regarding the financial condition of the City.
2. An estimate of all revenue from taxes and other sources, including the present tax structure rates and property evaluations for the ensuing year.
3. A carefully itemized list of proposed expenditures by fund, department, and category of expenditure (salaries and benefits, services and supplies, maintenance

and repairs, capital outlay, debt, and miscellaneous) for the budget year, as compared to actual expenditures of the last ended fiscal year, and an estimate of final expenditures for the current fiscal year.

4. A description of all outstanding bond indebtedness, showing amount date of issue, rate of interest and maturity date, as well as any other indebtedness which the City has incurred, and which remains outstanding.
5. A projection of revenues and expenditures together with a list of capital projects that should be considered within the next five years.

1.4 Includes All Operating Funds

The City's budget will include all operating funds of the City including, but not limited to, the General Fund, Utility Fund, and Debt Service Funds and Capital Project Funds.

1.5 Amendments to Budget Formally Approved by the Council

In accordance with Section 9.16 of the City Charter:

Under conditions which may arise, and which could not reasonably have been foreseen in the normal process of planning the budget, the Council may, by a majority vote of the full elected membership, amend or change the budget to provide for any additional expense in which the general welfare of the citizenry is involved. These amendments shall be by ordinance and shall become an attachment to the original budget.

1.6 Budget Due Date

In accordance with Section 9.02 of the City Charter:

On or before the first day of the eleventh month of the fiscal year, the City Manager shall submit to the Council a budget for the ensuing fiscal year and an accompanying message.

1.7 Balanced Budget

The operating budget will be balanced with current revenues inclusive of beginning resources, greater than or equal to current expenditures/expenses.

1.8 Periodic Monitoring of Budget Performance

Periodic financial reports will be prepared to enable the department managers to manage their budgets and to enable the Finance Director to monitor and control the budget as authorized by the City Manager.

Accounting and Financial Reporting

2.1 Financial Practices and Reporting

The City strives to present fairly and with full disclosure the financial position operations of the City. The City's financial reporting shall conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), and Government Finance Officers Association (GFOA).

2.2 Awards

- A Budget Presentation book will be presented to the Government Finance Officer's Association (GFOA) for evaluation and consideration for the Distinguished budget Presentation Award. It is the goal of the City to receive this award annually.
- The Certificate of Achievement for Excellence in Financial Reporting (COA) for the preparation of an Annual Comprehensive Financial Report shall be considered for submission.
- Texas Transparency Stars assure our citizenry that we are doing all we can to maintain financial transparency. Five areas of eligibility are Traditional Finances, Contracts and Procurement, Economic Development, Public Pensions, and Debt Obligations. The Finance department is encouraged to apply for, receive and maintain these awards.

2.3 Timely Interim Financial Reports

On a monthly basis, the financial director shall prepare a written summary of the City's financial affairs and submit it to the City Manager. Each such report shall accurately reflect the City's revenue and expenditure/expense performance as well as any additional information that reflects the City's fiscal policies.

2.4 Independent Audit

The Council shall provide for an independent annual audit of all City accounts and other evidence of the financial transactions of the City. The Council may provide for more frequent audits as it deems necessary.

2.5 Qualifications of the Auditor

Audits shall be made by a Certified Public Accountant (CPA) or firm of such accountants who have no personal interest, direct or indirect, in the fiscal affairs of the City or of any of its officers. The auditor must demonstrate that it has competent staff to conduct the City's audit in accordance with generally accepted auditing standards and contractual requirements. The auditor must be registered as a partnership or corporation of certified public accountants, holding a license under Article 41a-1, Section 9, of the Civil Statutes of Texas, capable of demonstrating that it has sufficient staff which will enable it to conduct the City's audit in accordance with generally accepted auditing standards as required by the City Charter and applicable state and federal laws.

2.6 Auditor Timing

The Auditor's report on the City's financial statements will be completed within 180 days of the City's fiscal year end.

2.7 Auditor Rotation and Evaluation

The City will not require an auditor rotation, however, per GFOA guidelines, an auditor rotation shall occur no less than every 5 years, at which time the Council may circulate requests for proposals for auditor services.

2.8 Management Letter

The auditor will prepare and will jointly review the Management Letter with the City Council within thirty days of its receipt by the staff. Within days of this joint review, the

Finance Director shall respond in writing to the City Manager and City Council regarding the auditor's Management Letter addressing the issues contained therein. The Council shall schedule its formal acceptance of the auditor's report upon the resolution of any issues resulting from the joint review.

2.9 Timely Accounts Payable Processing

The City will follow the Texas Prompt Payment Act for timely accounts payable processing and will strive to uphold those rules and regulations.

2.10 Timely CFR Submittal

The ACFR shall be prepared in accordance with GAAP. The ACFR shall be presented to the Council within 180 calendar days of the City's fiscal year end. If City staffing limitations preclude such timely reporting, the Finance Director will inform the City Council of the delay and reasons, therefore.

Revenue Management

3.1 Simplicity

The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs and to make it more understandable to the taxpayer or service recipient. The City will avoid nuisance taxes, fees or charges as revenue sources.

3.2 Certainty

A knowledge and understanding of revenue sources increase the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budgets and plans.

3.3 Equity

The City shall make every effort to maintain equity in its revenue system structure. The City shall seek to minimize or eliminate all forms of subsidization between entities, funds, services, utilities, and customers. The City shall require that there be a balance in the revenue system. The revenue base will have the characteristic of fairness and neutrality as it applies to cost of service, willingness to pay and ability to pay.

3.4 Diversification and Stability

In order to protect ourselves from fluctuations in a revenue source due to fluctuations in the economy and variations in weather, a diversified revenue system will be maintained which has a stable source of income.

3.5 Non-Recurring Revenues

One-time or non-recurring revenues will not be used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes.

3.6 Property Tax Revenues

All real and business personal property located within the City shall be valued at 100% of the fair market value for any given year based on the current appraisal supplied to the City by the Brazoria County Appraisal District. A 99% collection rate shall serve each year as a goal for tax collections. All delinquent taxes shall be aggressively pursued each year. Tax accounts delinquent greater than 150 days shall be turned over to the Delinquent Tax Attorney as provided in the agreement between the Brazoria County Tax Assessor/Collector and the City. A penalty shall be assessed to compensate the attorney as allowed by State law, and in accordance with the attorney's contract.

3.7 Interest Income

Interest earned from the investment of the City's idle cash balances, whether pooled or not, will be distributed to the funds in accordance with the operating and capital budgets, which, wherever possible, will be in accordance with the equity balance of the fund from which monies were provided to be invested.

3.8 Utility Rates

The city will review and adopt utility rates in a manner consistent with legal guidelines for such rates that will 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. This policy does not preclude drawing down cash balances to finance current operations. However, it is considered best that any extra cash balances be used instead to finance capital projects. Components of Utility Rates will include debt and transfers to the General Fund for an administrative fee, which will be charged to the Utility Fund for services of general overhead, such as administration, finance, personnel, data processing and legal counsel. This fee will be documented each year as a part of the annual budgetary process.

3.9 Revenue Monitoring

Revenues actually received will be regularly compared to budgeted revenues and variances will be investigated. This process will be summarized in the appropriate budget report.

Expenditure Control

4.1 Appropriations

The level of budgetary control is the fund level in all funds. When budget transfers between funds are necessary, these must be approved by the Council. Unused appropriation may be transferred to any item required for the same general purpose.

4.2 Purchasing

The Finance Director shall develop, in conjunction with the City Manager, purchasing procedures. These procedures shall be a part of the Standard Operating Procedures maintained by the Finance Department. These policies will address compliance with all applicable State bid law requirements. A copy of this policy shall be distributed to all Department Directors, who will be responsible for monitoring compliance within their department.

The City Council may approve an ordinance giving the City Manager general authority to contract expenditures without further approval of the Council, for all budgeted items not exceeding limits set by the Council. All contracts for expenditures involving more than the set limits must be expressly approved in advance by the Council. All contracts or purchases involving more than the limits set by the Council shall be let to the lowest bidder whose submittal is among those responsive to the competitive bidding as provided by law or ordinance. The City Council, or City Manager in such cases as he is authorized to contract for the City, shall have the right to reject any and all bids.

4.4 Prompt Payments

All invoices approved for payment by the proper City authorities shall be paid by the Finance Department within thirty (30) calendar days of receipt in accordance with the provisions of Article 601F, Section 2 of the State of Texas Civil Statutes.

4.5 Reporting

Monthly reports will be prepared showing actual expenditures compared to budgeted expenditures. Any deficits within the year will be adjusted.

4.6 Risk Management

The City will aggressively pursue every opportunity to provide for the public's and City employee's safety and to manage its risks. The goal shall be to minimize the risk of loss of resources through liability claims with an emphasis of safety programs. All reasonable options will be investigated to finance risks. Such options may include risk transfer, insurance, and risk retention. Where risk is retained, reserves will be established based upon actuarial determinations and not be used for purposes other than for financing losses.

Accounts Payable Security Protocol

Change of Account Requests

A reasonable effort must be made to verify, but not through email, the authenticity of any "change of account request" with:

- a. The "client" or "vendor" purporting to have issued the "change of account request"; or
- b. An "authorized person", but not the "authorized person" purporting to have issued the "change of account request";

and contemporaneously document the result of your effort before transferring any property.

Transfer Instructions

You must make a reasonable effort to verify, but not through email, the authenticity of any "transfer instruction" with:

- a. The "client" or "vendor" purporting to have issued the "transfer instruction";
- b. An "authorized person", but not the "authorized person" purporting to have issued the "transfer instruction";

and contemporaneously document the result of your effort before transferring any property.

4.7 Contingency Account Expenditures

In accordance with Section 7.08 Contingent Appropriation:

Provisions shall be made in the annual budget and the appropriation ordinance for a contingent appropriation in an amount not more than ten percent (10%) of the total general fund expenditures, to be used in case of unforeseen items of expenditures. The contingent appropriation shall apply to current operating expenses and shall not include any reserve funds of the City. The contingent appropriation shall not cause a negative change in general fund balance below the target reserve balance as discussed in section 5.2. Such contingent appropriation shall be under the control of the City Manager and distributed by him only after prior approval by the City Council. The proceeds of the contingent appropriation shall be disbursed only by transfer to other departmental appropriation, the spending of which shall be charged to the department or activities for which the appropriations are made.

A limit of \$2,000,000 (two million) shall be set for the Contingency Fund balance, not including interest earnings. Once this limit is met, the remaining amount of the ten percent (10%) of general fund expenditures will be allocated to the General Fund Capital Projects fund. The Contingency Fund limit will be reconsidered on a regular basis, not to exceed every 5 years, and adjusted as determined by council.

Financial Position and Fund Balances

5.1 Overview

Enterprise funds are used to account for operations that are financial and operated in a manner similar to private business enterprises where the intent of the City Council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the City Council has decided that periodic determination of net income is appropriate for accountability purposes. The City uses only one enterprise fund - the Utility Fund.

5.2 General Fund

The general fund reserve balance shall be established over a period of time through use of conservative forecasting and budgeting of revenue sources and efficient management and control of expenditures. The general fund is the primary fund of the City. This fund is used to account for all financial resources not accounted for in other funds. Per GFOA, the General Fund should hold an unrestricted fund balance of no less than two (2) months of regular general fund operating revenues or expenditures. With the higher-than-normal risk that comes with the geographic location of Richwood, auditors have expressed that a four (4) to six (6) month fund balance is appropriate. Excess reserve over six (6) months of regular general fund operating revenues may be allocated either through budget or transfer to capital projects or equipment replacement as recommended by staff and as approved by City Council.

5.3 Debt Service Fund

The City's debt service fund, sometimes called a "sinking fund," accounts for the accumulation of financial resources for the payment of principal and interest of the City's general obligation (property tax supported) debt, including lease purchases not financed by proprietary funds.

5.4 Utility Fund

This fund is used to account for water and wastewater system services provided for residents of the City, including administration, operations maintenance, debt service and billing and collecting.

Internal Controls

6.1 Written Procedures

The Finance Director is responsible for developing citywide written guidelines for accounting, cash handling and other financial matters, which will be approved by the City Manager. The Finance Department will assist department directors as needed in tailoring these guidelines into detailed written procedures to fit each department's requirements.

6.2 Departmental Internal Control Responsibility

Each department director is responsible to the City Manager to ensure that good internal controls are followed throughout his or her department and that all guidelines on accounting and internal control recommendations are addressed.

6.3 Staff Training

The City will support the continuing education efforts of all financial staff including the investment in time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, and sharing with other staff members all information and training materials acquired from seminars, conferences and related education efforts.

6.4 Adequacy of Staff

Staffing levels will be adequate for the fiscal functions of the City to function effectively. Overtime shall be used only to address temporary or seasonal demands that require excessive hours. Workload shedding alternatives will be explored before adding staff.

6.5 Centralized Cash Collections Points

The City will establish central locations in order to collect cash.

6.6 Projection of Cash Needs

The Finance Director will work closely with the Director of Public Works to project cash requirements in conjunction with the issuance of bonds and investment of bond proceeds.

6.7 Investments Management

The underlying theme will be that idle cash will be invested with the intent to: 1) safeguard assets, 2) maintain liquidity and 3) maximize return. Where legally permitted, pooling of investments will be done.

The City Manager and Finance Director or designee shall promptly invest all City funds with the City's Depository Bank in accordance with the provisions of the current Depository agreement or in any negotiable instrument that the Council has authorized under the provisions of the Public Funds Investment Act of 1987, and in accordance with the City Council approved investment policy.

6.8 Cash Management

The City's cash flow will be managed to maximize the cash available to invest. Such cash management will entail the centralization of cash collections, where feasible, including property tax payments, utility bills, building and related permits and licenses, and other collection offices as appropriate.

The Finance Department personnel shall, on payments authorized by the Council, use the facsimile check signing software, bearing signatures of the City Manager and the City Assistant City Manager, and/or City Secretary.

The Finance Department may transfer funds, via electronic transfer, through instructions to the City's Depository bank only for payment of properly authorized obligations of the City. Electronic payments shall be made in accordance with the conditions and control procedures as set forth in the current Depository contract and in the Finance Department Standard Operating Procedures.

6.9 Quarterly Financial and Investment Reports

Within 30 days of the end of each quarter, a report on investment performance will be provided to the Council. This report shall be prepared in the manner set forth in the Investment policy adopted by the City Council.

6.10 Safeguarding of Cash and Other Liquid Assets

These assets will be reasonably safeguarded and properly accounted for and prudently insured. Responsibility for the safeguarding of the City's fixed assets lies with the head of the department in which the fixed asset is assigned. The Finance Department shall supervise the process of affixing numbered property tags and shall maintain the permanent records of the City's fixed assets. These records shall include description, cost, and department of responsibility, date of acquisition, depreciation and expected useful life.

The Finance Department shall also perform an annual inventory of assets using an appropriate sampling method. Such inventory shall be performed by the Finance Director or her or his designated agent in the presence of designated department personnel from the department of responsibility.

6.11 Periodic Reviews of Control Procedures

The City shall conduct periodic reviews of control procedures.

Debt Management

7.1 Annual Five Year Debt Capacity Analysis

The City will complete, annually, a five (5) year debt capacity analysis. In accordance with recommendations made by the Government Finance Officers Association (GFOA), this debt capacity analysis should include:

Statutory or constitutional limitations affecting the amount that can be used, such as:

- Legally authorized debt limits, and
- Tax or expenditure ceilings
- Other legal limitations, such as coverage requirements or additional bond test imposed by bond covenants.

Measures of the tax and revenue base, such as:

- Projections of key, relevant economic variables,
- Population trends,
- Utilization trends for services underlying revenues, and
- Factors affecting tax collections, assessment practices and collection rates

Debt service obligations, such as

- Existing debt service requirements, and
- Debt service as a percentage of expenditures, or tax or system revenues

Measures of debt burden on the community, such as:

- Debt per capita,
- Debt as a percentage of personal income,
- Debt as a percentage of full or equalized assessed property value, and
- Overlapping or underlying debt

Tax-exempt market factors affecting interest costs, such as:

- Interest rates,
- Market receptivity,
- Credit rating

7.2 Rating Agency Presentations

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff, with the assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies.

7.3 Bond Counsel and Financial Advisor

The staff will maintain open lines of communication with the City's Bond Counsel, along with the Financial Advisor, in order to periodically assess the City's use of debt as an appropriate method of financing and the financing options available to the City.

7.4 Long Term Debt Schedules

The Finance Department shall maintain up to date schedules of long-term debt schedules, which include payment dates, payment amounts split between principal and interest and paying agent(s) for the issue.

7.5 Debt Policy

The City's Debt Policy will strive to be in compliance with the recommendations set forth by GFOA.

- The purposes for which debt may be issued.
- Legal debts limitations or limitations established by policy, including limitations on the pledge of the issuer's general credit.
- Use of moral obligations pledges.
- Type of debt permitted to be issued and criteria for issuance of:
 - ⇒ Short-term and long-term debt
 - ⇒ General obligation and revenue debt
 - ⇒ Fixed and variable rate debt
 - ⇒ Lease-backed debt
 - ⇒ Special obligation and revenue debt
 - ⇒ Conduit issues
 - ⇒ Taxable debt

- Structural features that may be considered, such as:
 - ⇒ Maturity of the debt
 - ⇒ Setting the maturities of the debt equal or less than the useful life of the project
 - ⇒ Use of zero-coupon bonds, capital appreciation bonds, deep discount bonds or premium bonds
 - ⇒ Redemption provisions
 - ⇒ Use of credit enhancement
 - ⇒ Use of senior lien and junior lien obligations
 - ⇒ Use of derivative products
- Credit objectives, such as:
 - ⇒ Maintenance of specific credit ratings
 - ⇒ Adherence to benchmark direct and overall debt ratios and other affordability targets
- Method of selecting outside finance professionals
- Policy on refunding of debt
- Compliance with federal tax law provisions

Capital Asset Policy

The City shall recognize all real or personal property that is purchased, constructed, or donated to the City and that has a value equal to or greater than the capitalization threshold for the particular classification of the asset and an estimated life of greater than one year.

8.1 Classifications

Land and Improvements

- Land consists of site, preparation, and site improvements other than buildings that ready land for its intended use. All costs associated are added to the cost of the land.
- Land and improvements are inexhaustible assets and do not depreciate overtime.
- All acquisitions of land and improvements will be capitalized.

Buildings and Improvements

- Buildings are structures that are permanently attached to the land. Building improvements materially extend the useful life of a building and will be recorded as an addition of value to the existing building if the expenditure for the improvement is at the capitalization threshold or increases the life or value of the building by 25% of the original life period or cost.
- Buildings shall have an estimated useful life of at least 50 years and subsequent improvements that change the use or function of the building shall be depreciated.
- The capitalization threshold for buildings and improvements is \$100,000.

Infrastructure and Improvements

- Infrastructure assets are linear and continuous in nature, such as, streets, water lines, sewer lines, drainage lines, etc. Improvements shall materially extend the useful life or increase the value of the infrastructure, or both.

Additions and improvements shall increase the capacity of the asset.
(Example: adding additional lanes to a highway would be capitalized)

- Infrastructure shall have an estimated useful life of at least 50 years.
- The capitalization threshold for infrastructure is \$500,000.

Equipment

- All purchases of equipment that is used for operations and meets the minimum capitalization threshold shall be capitalized.
- Equipment shall have an estimated useful life from 5-8 years.
- The capitalization threshold for equipment is \$10,000.

Construction in Progress

- Construction in progress is the construction activity of buildings, infrastructure, systems, additions, reconstruction, installations, and repairs, which are substantially incomplete.
- Depreciation is not applicable while assets are accounted for as Construction in Progress. See appropriate capital asset category.
- Construction in progress shall be capitalized to their appropriate capital asset categories upon the execution of completion contract documents, occupancy, or when the asset is placed into service.

8.2 Written Procedures

The Finance Department is responsible for developing citywide guidelines for the accounting, tagging, disposition and reporting of all capital assets.

8.3 Annual Review

This policy shall be reviewed annually by the Director of Finance and in conjunction with the City's annual financial audit. The City's external auditors shall review the City's policy and compliance with said policy.