

Exhibit A

City of University Park, Texas

**Financial Management
Policies**

Effective: October 1, 2021

**City of University Park, Texas
Financial Management Policies**

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City of University Park, Texas Financial Management Policies

Introduction

These financial policies set forth the basic framework for the fiscal management of the City of University Park. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code and the City of University Park City Charter. The policies are intended to assist the City Council and City staff in evaluating current activities and proposals for future programs. The policies are to be reviewed on a regular basis and modified to accommodate changing circumstances or conditions.

The primary goal of these policies is to help the City achieve and maintain a long-term stable and positive financial condition. The City's financial management, as directed by these policies, is based on the foundations of integrity, prudent stewardship, planning, accountability, and full disclosure.

1. Annual Budget

a. Fiscal year

The fiscal year of the City of University Park shall begin on October 1 of each calendar year and will end on September 30 of the following calendar year. The fiscal year will also serve as the accounting and budget year.

b. Budget preparation

The City Manager, prior to September 1st of each year, shall prepare and submit to the Mayor and the City Council an annual budget for the next fiscal year containing the following information:

- A description of the proposed budget, including an explanation of any significant changes from the previous year's expenditures and any major changes of policy.
- An estimate of all revenue from taxes and other sources, including the present tax structure rates and property valuations for the ensuing year.
- An estimate of proposed user fees for all proprietary funds.
- An itemized list of proposed expenditures by fund, department, and type for the budget year, compared to the adopted budgets from the two years immediately prior.
- A description of all outstanding bonded indebtedness (if any) of the City.
- A statement detailing significant capital expenditures deemed necessary during the next budget year and recommendations for financing.

The City Council may refer the proposed budget to the City's advisory committees for their review and recommendation.

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The Council shall conduct at least one public hearing to allow interested citizens to express their opinions concerning items of expenditures or revenues. The City shall observe the notice and hearing requirements of the Texas “Truth in Taxation” statutes (Texas Tax Code Section 26). Following the public hearing, the Council shall analyze the budget, making any additions or deletions which they feel appropriate, and shall, by ordinance, adopt the budget by a majority vote.

On final adoption, the budget shall be in effect for the budget year. Final adoption of the budget by the Council shall constitute the official appropriations for the current year and shall constitute the basis of the official levy of the property tax.

c. Budget administration

All expenditures of the City of University Park shall be made in accordance with the annual budget. During the fiscal year, conditions may arise that require modification to the adopted budget.

i. Amendments

The City Council may amend or change the budget by ordinance to provide for any additional expense. As a matter of course, continuous budget monitoring requires that deviations from expected amounts of revenue and/or expenditures be noted and estimates revised, if necessary, to avoid financial distress. Budget amendments are thus considered prudent financial management techniques.

ii. Transfers

Transfers between expenditure accounts within a single department may be authorized by the department director. Transfers between departments within a single fund may occur with the written approval of the City Manager. Transfers between funds must be accomplished by budget amendment approved by the City Council. Transfers between salary and benefit accounts and any other accounts are discouraged.

2. Basis of Accounting and Budgeting

a. Use of GAAP

City finances shall be accounted for in accordance with Generally Accepted Accounting Principles (GAAP), as established by industry practice and the Governmental Accounting Standards Board (GASB).

b. Organization of funds and accounts

The accounts of the City of University Park are organized and operated on the basis of funds and account groups. Fund accounting segregates monies according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

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In general, the City will maintain the minimum number of funds consistent with legal and managerial requirements. Funds are divided into three categories: governmental, proprietary, and internal service.

i. Governmental funds

Governmental funds are used to account for the City's general government activities and include the General, Capital Projects, Special Revenue and Debt Service funds (if necessary). Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (both "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon thereafter. Substantially all material revenues are considered to be susceptible to accrual. A sixty-day availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recognized when the related fund liability is incurred, if measurable. Compensated absences, claims, and judgments are recorded when the obligations are expected to be paid with current available financial resources.

ii. Proprietary funds

Proprietary funds are used to account for those activities that are business-like in nature, and include the Utility, Storm water and Sanitation funds. Proprietary fund types are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

iii. Internal Service funds

Internal Service funds account for the services provided by one department to other departments of the city on a cost reimbursement basis and include the Equipment Service and Comprehensive Self-Insurance funds.

c. Budget basis

Budgets shall be prepared and adopted on a cash basis for the General Fund and on accrual basis for the Utility and Sanitation funds. Annual budgetary appropriations will lapse at fiscal year-end.

d. Encumbrances

Encumbrance accounting shall be used. Purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation. Outstanding encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities since the commitments will be re-appropriated and honored during subsequent fiscal year(s).

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3. Financial Reporting and Auditing

a. Monthly financial reports

Monthly reports shall be prepared comparing expenditures and revenues to the amended budget. Explanatory notes and charts will be included, as needed. These reports shall be provided to the City Council and Finance Advisory Committee each month, and they may also be posted to the City's Web site.

b. Annual financial reporting

Following the conclusion of the fiscal year, the Finance department shall prepare a Comprehensive Annual Financial Report (CAFR) in accordance with GAAP. The document shall be prepared to satisfy all criteria of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting program.

The CAFR shall include the results of the annual audit prepared by independent certified public accountants designated by the City Council.

c. External audit

As required by State law, the City shall engage an external auditor each year to examine its financial records and provide an opinion. The auditor shall be chosen by the City Council for a multiyear period, and audit proposals shall be reviewed by the Finance Advisory Committee. In general, the City will seek proposals from external auditors every five years, although it is under no obligation to change.

4. Revenues

a. Revenue projections

When developing the annual budget, the City Manager shall project revenues from each source based on actual collections from the preceding year and estimated collections of the current fiscal year, while considering known circumstances which will impact revenues for the new fiscal year. Revenue projections for each fund should be made conservatively so that total actual fund revenues exceed budgeted projections.

b. Property taxes

i. Tax rate types

The City shall levy two property tax rates: operations and maintenance, and debt service. The operation and maintenance levy shall be accounted for in the General Fund. The debt service levy, if any, shall be sufficient to meet all principal and interest payments associated with the City's outstanding general obligation debt for that budget year and shall be accounted for in a Debt Service fund.

ii. Property tax policies

The City will levy the lowest tax rate on the broadest tax base. Exemptions will be provided to home owners, senior citizens (age 65 years and over), and disabled citizens. The homestead exemption shall be equal to 20% of a

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property's value.

City Council will review the senior citizen and disabled persons homestead exemptions annually, with a goal of maintaining an exemption equal to approximately 25% of the average single-family home value from the prior tax year.

c. User fees

The City will establish user charges and fees at a level that fully supports the total direct and indirect cost of operations, including depreciation. User fees, particularly utility rates, should identify the relative costs of serving different classes of customers, if possible.

The City of University Park will make every reasonable attempt to ensure accurate measurement of the variables impacting taxes and fees (e.g., verification of business sales tax payments, verification of appraisal district property values, accuracy of water meters, and so on).

d. One-time revenues

It is the general policy of the City to use one-time (non-recurring) revenues to fund capital improvements or reserves. The use of one-time revenues to fund ongoing expenditures is discouraged.

For the purposes of this policy, one-time revenues include (but are not limited to): payments received from the sale of rights-of-way, alleys, streets or other City-owned real property and building permit fees received in excess of 120% of the amount budgeted for the fiscal year. Transfers made as result of this policy are limited to the extent they would cause the unassigned fund balance to drop below the required fund minimum.

5. Operating Expenditures

a. Classification of operating expenditures

Expenditures shall be accounted, reported, and budgeted for in the following major categories:

- Salaries and Benefits
- Supplies
- Professional Services
- Utilities
- Insurance
- Outside Services
- Other
- Capital Expenditures

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b. Annual appropriation

The annual budget shall appropriate funds for operating and recurring expenditures sufficient to maintain established quality and scope of city services. The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues.

c. Service delivery review

The City shall constantly examine the methods for providing public services to reduce recurring operating expenditures and/or enhance the quality and scope of public services. The City will utilize contract labor for the provision of City services whenever private contractors can perform the established level of service at less expense to the City. Agreements with private contractors will be regularly reviewed to ensure the established levels of service are performed at the lowest possible cost.

d. Personnel expenditures

Salaries and benefits expenditures will reflect the optimal staffing needed to provide established quality and scope of city services. To attract and retain employees necessary for providing high-quality service, the City shall maintain a compensation and benefit package competitive with relevant public and private sector employers.

e. Capital expenditures

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a level sufficient to protect the City's investment, minimize future replacement and maintenance costs while maintaining acceptable service levels. Existing capital equipment shall be replaced when needed, to ensure the optimal productivity of City of University Park employees.

i. Equipment replacement

The City shall establish a fleet equipment program that includes a detailed maintenance and replacement schedule. Funding for equipment replacements will be made through budgeted contributions by the user departments. These charges shall be held in the Equipment Services Fund until expended.

Additional funding may be obtained through year-end budget surpluses, if any. Expenditures for new (not replacement) capital equipment shall be made only to enhance employee productivity, improve quality of service, or expand scope of service.

ii. Capitalization threshold

The GFOA recommends that "best practice" guidelines be followed in establishing capitalization thresholds for tangible capital-type items. Accordingly, the following criteria are followed:

- Individual items costing \$5,000 or more and capital projects whose total cost (in the aggregate) exceeds \$50,000 or more will be capitalized and depreciated according to GASB rules.
- Tangible, capital assets will only be capitalized if they have an estimated useful life of at least two years following the date of acquisition.
- Capitalization thresholds will be applied to individual items rather than

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groups of similar items.

- Records and procedures will be established at the departmental level to ensure adequate control over non-capitalized tangible assets. It shall be the responsibility of the individual department directors to maintain records and procedures sufficient to demonstrate compliance with this policy.

6. Fund Balance

a. Purpose

The purpose of this policy is to establish guidelines for governmental fund balances in accordance with Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions.

b. Definitions

i. Nonspendable fund balance - includes amounts that are not in a spendable form or are required to be maintained intact. (Examples are inventory or permanent funds.)

ii. Restricted fund balance - includes amounts that can be spent only for the specific purpose stipulated by external resource providers either contractually, constitutionally or through enabling legislation. (Examples include grants and child safety fees.)

iii. Committed fund balance - includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be modified or rescinded only by the government taking the same formal action that imposed the original constraint.

iv. Assigned fund balance - comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

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v. Unassigned fund balance - is the residual classification of the General Fund and includes all amounts not contained in the above mentioned classifications. Unassigned fund balance is available for any valid governmental purpose and may include negative balances for any governmental fund in which expenditures exceed the amounts restricted, committed, or assigned for a specific purpose.

c. Policy by category

i. Committed fund balance

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

ii. Assigned fund balance

The City Council has authorized both the City Manager and the Finance Director to assign fund balance to a specific purpose, as necessary.

iii. Unassigned fund balance

The City recognizes that unassigned fund balance is an important measure of economic stability. It is the goal of the City to achieve and maintain an unassigned fund balance in the General Fund equal to at least 30 days of expenditures to mitigate financial risk that can occur from unforeseen revenue fluctuations, significant unanticipated expenditures and natural disasters. The City considers a balance of less than 30 days to be cause for concern, barring unusual or deliberate circumstances. Should unassigned fund balance fall below the above minimum, the City shall refrain from making additional appropriations from fund balance.

d. Order of fund expenditure

When multiple categories of fund balance are available for expenditure (for example, a construction project being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted category of funds before spending the next most restricted category with available funds. Normally, this will result in the use of committed, then assigned, and lastly, unassigned fund balance when expenditures are made, with the exception of the emergency reserve established by the City Council. Under normal circumstances, the City would first elect to utilize unassigned fund balance before considering use of its emergency funds.

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e. Fund balance appropriations

Fund balances in excess of the minimum level established above may be appropriated for non-recurring capital projects or programs. The City of University Park will exercise diligence in avoiding the appropriation of fund balance for recurring operating expenditures. In the event fund balance is appropriated for recurring operating expenditures to meet the needs of the community, the budget (or other authorizing) document shall include an explanation of the circumstances requiring the appropriation and the methods to be used to arrest its future use.

f. Non-governmental fund balances

Insofar as the above definitions, policies and fund balance categories do not apply to proprietary funds, the City recognizes the need to apply a different minimum balance policy to the Utility, Sanitation, and Stormwater Funds, in order to ensure continued operation in the event of a natural disaster or significant shortfall in revenues. Therefore, the City shall maintain a minimum ending working capital balance (current assets minus current liabilities) of at least 90 days of budgeted expenditures in each. Should working capital fall below the desired minimum, the City shall refrain from making additional appropriations from fund net assets.

g. Internal service funds

Internal service funds derive their revenue from budgeted transfers or investment earnings. Over time, their working capital may increase or draw down according to the needs of the City. Recognizing the need to maintain adequate reserves in case of significant adverse experience, the working capital of the Self-Insurance Fund shall be maintained at not less than \$6,000,000. This threshold shall be reviewed not less than annually. The target working capital of the Equipment Services Fund shall be approximately 25% of the replacement cost of the assets within the fund. For calculation purposes, a 3% inflation factor shall be used. Working capital in excess of the minimum required in either fund may be appropriated for any valid City purpose in keeping with sound financial practices.

7. Capital Project Expenditures

Capital projects will be constructed to 1) protect, maintain or improve the community's quality of life and economic vitality, and 2) to provide significant rehabilitation of City infrastructure for sustained service. All projects shall be prioritized based on an analysis of current needs and resource availability. Capital project expenditures will not be authorized by the City Council without identification of a sufficient funding source. Potential funding sources include but are not limited to: reserve funds, debt issuances, matching fund revenues, user fees, grants, or reallocation of existing capital funds with the recognition that construction of previously authorized capital projects may be delayed or postponed.

a. Capital project definition

Capital projects are defined as non-recurring expenditures for improvements that exceed \$50,000 and have useful lives exceeding one year. Examples include water and wastewater line replacement, street resurfacing, building construction and renovation, major software and hardware projects, and park improvements.

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b. Capital Improvement Program (CIP)

The City will develop a multi-year plan for capital projects which identifies all projects likely to be constructed within five years. It is acknowledged that the preference of the City is to support capital projects with appropriations from operating revenues or excess fund balances (i.e. "pay-as-you-go"), rather than debt.

c. Capital Projects Review Committee

The City Council shall annually review the CIP, and it shall adopt by resolution the first year of the CIP as the capital budget. The Council shall appoint a Capital Projects Review Committee to review and provide recommendations about the CIP.

8. Debt Expenditures

It is the intention of the City Council to avoid the issuance of debt, preferring to fund capital expenditures on a "pay-as-you-go" basis. However, should the issuance of debt become necessary, the following principles shall apply:

- To minimize interest payments on issued debt, the City will maintain a rapid debt retirement policy by issuing debt with maximum maturities not exceeding 20 years.
- The City of University Park will attempt to maintain base bond ratings (prior to insurance) of at least *Aa2* (Moody's Investors Service) and *AA+* (Standard & Poor's) on its general obligation debt.
- When needed to minimize annual debt payments, the City will obtain insurance for new debt issues.
- Generally, competitive underwriting is preferred to a negotiated sale.

9. Long-term Financial Plan

The City of University Park will adopt the annual budget in the context of a long-term financial plan, or other multi-year budget analysis. The long-term financial plan will establish assumptions for revenues, expenditures and the changes to fund balances over a five-year horizon. The assumptions will be evaluated periodically, as part of the budget development process.

10. Internal Controls

The City shall maintain written guidelines on accounting, cash handling, segregation of duties, investing, and other financial matters. Each department director shall ensure that departmental procedures are adequate to safeguard City funds and assets. Staffing and training shall be reviewed periodically to ensure adequacy. The City shall conduct periodic reviews of Internal Controls and Cash Handling Procedures.

11. Cash Management and Investments

a. Cash Management

Daily deposits of cash shall be made unless the amounts collected (or expected to be collected) warrant less frequent deposits, as determined by the Finance Director. The timing and amount of cash needs and availability of funds shall be analyzed in order to maximize interest earnings from investments. City staff shall monitor and manage activity in the City's bank accounts to optimize the availability of funds and interest earned.

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b. Investments

The City's investment portfolio shall be managed in accordance with the Public Funds Investment Act and the City's Investment Policy. The City Council shall adopt a formal investment policy by resolution annually, following review and recommendation by the Finance Advisory Committee.

c. Selection of Depository Bank

The City will undertake a comprehensive review of its banking needs and seek competitive proposals for bank services on a regular basis. The bank shall be chosen by the City Council for a multiyear period, and banking services proposals shall be reviewed by the Finance Advisory Committee. In general, the City will seek proposals from depository banks every five years, although it is under no obligation to change.

12. Internal Audit/Review

Recognizing that the cost of a control should not outweigh its intended or actual benefit, the City does not currently employ an Internal Audit Department. Instead, City staff, under the guidance of the Finance Director and with appropriate checks and balances, will identify operations, processes and practices to be periodically reviewed for compliance with City policy and best practices. Projects may be added, amended, or deleted as deemed necessary by the Finance Director or City Manager.

Recommendations and findings will be submitted to the Finance Director upon completion of the review and discussed with the applicable department Director. It is the responsibility of each department Director to ensure policies and procedures are correctly implemented and followed.