



# City of Killeen

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## Financial Governance Policy

**Finance Department**  
**February 23, 2021**



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## II. INTRODUCTION

The City of Killeen financial policies set forth the basic framework for the fiscal management of the City. These policies were developed within the parameters established by applicable provisions of the Texas Local Government Code, the Texas Property Tax Code, the City of Killeen Charter, the Government Financial Officers Association, and the Governmental Accounting Standards Board. The policies are intended to assist the City Council and City staff in evaluating current activities and proposals for future programs while maintaining a long-term stable and positive financial condition. The watchwords of the City's financial management include integrity, prudent stewardship, long-term planning, accountability, and transparency. The policies will be reviewed and updated on an annual basis as established in Section VI. Fiscal Monitoring. Upon adoption of these financial policies, City Council authorizes the City Manager to interpret the policies, implement all policies, and manage the City within the boundaries of the policies.

### **III. ANNUAL BUDGET**

#### **A. FISCAL YEAR**

The fiscal year of the City of Killeen shall begin on the 1st day of October and shall end on the last day of September of each calendar year. Such fiscal year shall also constitute the accounting and budget year.

#### **B. BUDGET PROCESS**

At the beginning of the budget process each year, the City Council will review the financial policies and have strategic discussions to determine the City Council's priorities. The City Council will provide the City Manager specific direction of their priorities.

Operating departments shall submit their annual budgets to the City Manager within fiscal parameters provided by the City Manager's Office. Departments will focus on accomplishing their core mission and stay within the budget parameters set by the City Manager. Expenditure requests outside of the parameters must be submitted as separate budget decision packages to the City Manager. The City Manager will determine which decision packages, if any, to include in the proposed budget. The City Manager will balance the operating budget against current revenue prior to submitting it to the City Council.

The City Manager shall prepare and submit to City Council a proposed budget in accordance with the guidelines set forth in the City Charter, Article V and the guidance set forth in the financial policies.

**C. BUDGET TIMELINE**

Date	Event	Governing Source
January 31 <sup>st</sup>	Last day for City Council to begin the review of the financial policies	<ul style="list-style-type: none"> <li>• City of Killeen Financial Governance Policy IV(B) requires annual review to begin no later than the end of January.</li> </ul>
July	City Manager submits proposed budget to City Council  City Council sets the time and place of the public hearing on the budget	<ul style="list-style-type: none"> <li>• City Charter V(50) requires budget to be submitted to City Council not less than forty-five days prior to the beginning of fiscal year.</li> <li>• City Charter V(54) requires City Council to fix the time and place of a public hearing on the budget at the meeting it is submitted.</li> </ul>
July 25 <sup>th</sup>	Certified tax roll received from Appraisal District	<ul style="list-style-type: none"> <li>• Property Tax Code 26.01(a) requires Chief Appraiser to submit certified roll by July 25<sup>th</sup>.</li> </ul>
July / August	Budget Public Hearing	<ul style="list-style-type: none"> <li>• Local Government Code 102.006(b) requires a public hearing to occur after the 15<sup>th</sup> day the proposed budget is filed with the municipal clerk and before the governing body makes its tax levy.</li> <li>• City Charter V(54), (55)&amp;(56) requires a public hearing to be held on the budget. City Council may make changes to the proposed budget after the public hearing. Before inserting additional items or increasing appropriations, a public hearing must be held.</li> </ul>
August	Tax rates (voter-approval and no-new-revenue rates) submitted to City Council  City Council sets the preliminary tax rate	<ul style="list-style-type: none"> <li>• Property Tax Code 26.04(e) states rates must be submitted to City Council by August 7th or as soon thereafter as practicable.</li> <li>• Property Tax Code 26.05(a) – Must adopt a tax rate that exceeds the voter-approval tax rate not later than the 71st day before the next uniform election date prescribed by the Election Code, Section 41.001, that occurs in November of that year.</li> <li>• Election Code 3.005(c) – For an election to be held on a uniform election date, the election shall be ordered not later than the 78<sup>th</sup> day before election day.</li> <li>• Property Tax Code 26.05(d-1) – May not hold public hearing on a proposed tax rate or a public meeting to adopt a tax rate until the fifth day after the date the chief appraiser delivered notice required by Section 26.04 (e-2) and complied with</li> </ul>

	Tax Rate Public Hearing	<p>Section 26.17 (f) (Database of Property-Tax-Related Information).</p> <ul style="list-style-type: none"> <li>• City Council sets the preliminary tax rate, which establishes the tax rate ceiling for the upcoming fiscal year. If the preliminary tax rate exceeds the voter-approval rate, the tax rate public hearing must occur in August prior to the deadline to call an election. If the preliminary tax rate does not exceed the voter-approval rate, the tax rate public hearing may occur in August or September.</li> </ul>
August / September	<p>Adoption of:</p> <ul style="list-style-type: none"> <li>• Budget</li> <li>• Tax rate</li> </ul>	<ul style="list-style-type: none"> <li>• If preliminary tax rate exceeds the voter-approval rate, the budget and tax rate must be adopted in August.</li> <li>• If preliminary tax rate does not exceed the voter-approval rate, the budget and tax rate may be adopted in August or September.</li> </ul>
September 20 <sup>th</sup>	Last day per City Charter to adopt budget and tax rate	<ul style="list-style-type: none"> <li>• City Charter V(59) requires the budget to be adopted by September 20<sup>th</sup> or the budget as submitted by the City Manager is deemed to be adopted.</li> </ul>

**D. BUDGET PRESENTATION**

The City Manager shall present the budget in a manner that shows expenditures and revenues for the last completed fiscal year, the estimated amount for the current fiscal year, and the proposed amount for the ensuing fiscal year in accordance with the City Charter, Article V.

The City Manager shall submit the proposed budget no later than the forty-fifth (45) day before the start of the new fiscal year in accordance with the City Charter.

**E. BUDGET FILING**

The budget and all supporting schedules shall be filed with the City Secretary when submitted to the City Council and shall be a public record for inspection by anyone.

Upon final adoption, the budget shall be in effect for the fiscal year. A copy of the budget, as finally adopted, shall be filed with the Clerk of Bell County (Local Government Code §102.009(d)), the City Secretary, and the State Comptroller of

Public Accounts at Austin. The final budget will also be posted on the City website (Local Government Code §102.008(2)).

#### F. BUDGET PUBLIC HEARINGS

A public hearing shall be conducted by the City Council, allowing interested citizens to express their opinions concerning items of expenditures or revenues. The City Council shall set the hearing for a date occurring no earlier than the 16th day after the date the proposed budget is filed with the City Secretary but before the date the City Council makes its tax levy (Local Government Code §102.006).

The notice of hearing shall be published not less than 10 days nor more than 30 days before the hearing (Local Government Code §102.0065).

After conclusion of such public hearing, the City Council may insert new items or may increase or decrease the items of the Budget, except items in proposed expenditures fixed by law. Before inserting any additional item or increasing any item of appropriation, it must cause to be published a notice setting forth the nature of the proposed increases and fixing a place and time, not less than five days after publication, at which the City Council will hold a public hearing thereon (City Charter, Article V, Section 56).

After such further hearing, the City Council may insert the additional item or items, and make the increase or increases, to the amount in each case indicated by the published notice, or to a lesser amount, but where it shall increase the total proposed expenditures, it shall also provide for an increase in the total anticipated revenue to at least equal such total proposed expenditures (City Charter, Article V, Section 57).

#### G. BUDGET ADOPTION

The budget shall be adopted by the favorable vote of a majority of the members of the whole City Council (City Charter, Article V, Section 58). The budget shall be finally adopted not later than the twentieth day of the last month of the fiscal year. Should the City Council take no action on or prior to such day, the budget as submitted by the City Manager shall be deemed to have been finally adopted by the City Council (City Charter, Article V, Section 59). If the City Council does not adopt a tax rate, the tax rate for that year will be the lower of the no-new-revenue rate or the tax rate adopted the previous year (Texas Property Tax Code §26.05(c)).

From the effective date of the budget, the several amounts stated therein as proposed expenditures shall be and become appropriated to the several objects and purposes therein named. The City Council may only spend City funds in strict



compliance with the budget, except in an emergency (Local Government Code §102.009(b)). This does not prevent the City Council from making changes in the budget for municipal purposes (Local Government Code §102.010).

From the effective date of the budget, the amount stated therein as the amount to be raised by property tax shall constitute a determination of the amount of the levy for the purposes of the City in the corresponding tax year. Upon adoption, the City may only levy taxes in accordance with the budget (Local Government Code §102.009(a)).

The total estimated expenditures of each fund shall not exceed the total estimated resources of the fund (prospective income plus cash on hand). The classification of revenue and expenditure accounts shall conform, as nearly as local conditions will permit to the uniform classification as promulgated by the Governmental Accounting Standards Board (GASB).

**H. 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 that will affect revenues for the new fiscal year. In order to maintain stability in service delivery, the City shall use a realistic, objective, and analytical approach when preparing revenue estimates. To protect the City of Killeen’s financial integrity, the City will maintain a diversified and stable revenue system to shelter it from fluctuations in any one revenue source. The City of Killeen will consider market rates and charges levied by other public and private organizations for similar services in establishing tax rates, fees and charges.

**I. PROPERTY TAXES**

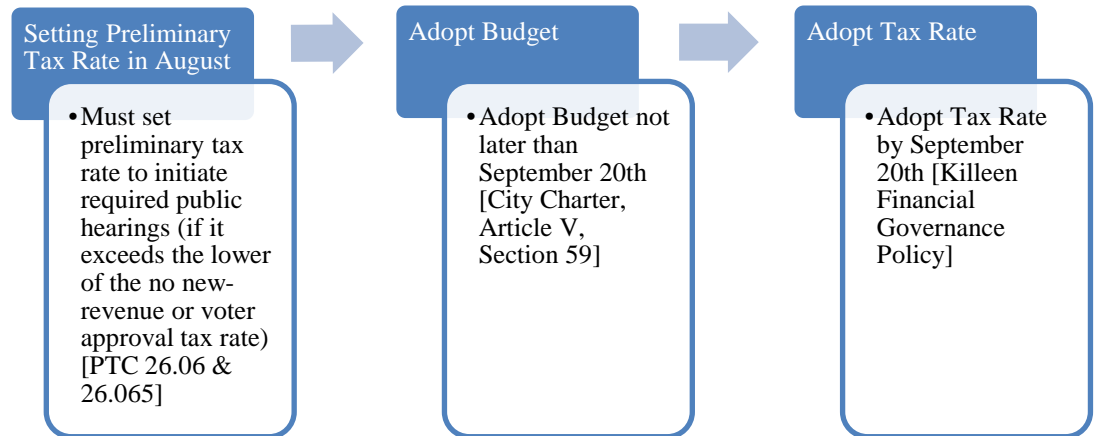
**1. TAX RATE TYPES**

For every annual budget, the City of Killeen levies two property tax rates: maintenance/operation and interest/sinking. The interest/sinking levy must be sufficient to meet all principal and interest payments associated with the City’s outstanding general obligation debt for that budget year. The interest/sinking levy and related expenditures shall be accounted for in the Debt Service Fund. The maintenance/operation levy shall be accounted for in the General Fund. If the City’s tax rate is set above the voter-approval tax rate, the amount of the levy above the voter-approval rate shall be used for non-recurring expenditures.

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## 2. SETTING TAX RATE

The City Council must adopt a tax rate not later than the twentieth day of the last month of the fiscal year. The annual tax rate must be set by ordinance. All actions related to the setting of the tax rate must be in accordance with Texas Property Tax Code and Local Government Code.



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## 3. PROPERTY TAX POLICIES

The City of Killeen will levy the lowest tax rate on the broadest tax base to achieve its mission and goals. Mandated exemptions will be provided to homeowners, senior citizens, and disabled citizens. Minimal additional exemptions will be provided. The City may consider providing tax abatements or other incentives to encourage development.

### J. 20 YEAR FORECAST OF REVENUES AND EXPENDITURES

A 20-year forecast of revenues and expenditures, to include a discussion of major trends affecting the City's financial position, shall be prepared in conjunction with the annual budget process. The forecast shall also examine critical issues facing the City, economic conditions, and the outlook for the upcoming budget year.

## **IV. BASIS OF ACCOUNTING AND BUDGETING**

### **A. CONFORMANCE TO ACCOUNTING PRINCIPLES AND RECOMMENDED PRACTICES**

The City's accounting practices, and financial reporting shall conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA).

### **B. ORGANIZATION OF FUNDS AND ACCOUNTS**

The financial transactions of the City of Killeen are accounted for and recorded in individual funds and account groups. In general, the City will maintain the minimum number of funds consistent with legal and managerial requirements.

### **C. BUDGET BASIS**

Budgets shall be prepared and adopted on a basis consistent with generally accepted accounting principles for all governmental funds and proprietary funds.

### **D. ENCUMBRANCES**

Encumbrance accounting shall be used. Outstanding encumbrances are reported as assignments of fund balances and do not constitute expenditures or liabilities since the amounts will be expended the subsequent fiscal year.

### **E. GASB STATEMENT 34**

The issuance of Statement 34 by GASB has influenced the creation and reporting of individual funds. GASB 34 essentially mandates dual accounting systems: one for government-wide (i.e. the government as a single entity) reporting and another for individual fund reporting. Under GASB 34 for individual funds, the City will continue utilizing the accounting and budgeting processes as described above. However, because GASB 34 mandates the flow of economic resources measurement focus and accrual basis of accounting for the government-wide reporting, extensive reconciliation must be performed to present aggregated fund information in the government-wide reporting model. Therefore, operating funds will be created with the objective of minimizing the reconciliation necessary for government-wide reporting.



## V. BUDGET ADMINISTRATION

### A. LEVEL OF CONTROL

All expenditures of the City of Killeen shall be made in accordance with the annual budget. The legal level of control (the level at which expenditures may not legally exceed appropriations) is the fund. During the fiscal year, conditions may arise that require modifications to the budget.

### B. AMENDING THE BUDGET

Texas law provides for two types of expenditure budget amendments.

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#### 1. AMENDMENTS

The City Council may amend or change the budget by ordinance. Ordinances amending the budget must be filed with the City Secretary. The City Secretary will attach the amendment to the original budget (Local Government Code §102.009(c) and Local Government Code §102.010). All approved budget amendments must also be filed with the Clerk of Bell County (Local Government Code §102.009(d)).

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#### 2. TRANSFERS

Transfers between expenditure accounts will be approved in accordance with City Charter, Article VII.



## **VI. FISCAL MONITORING**

The City shall prepare and present regular reports that analyze, evaluate, and forecast the City's financial performance and economic condition.

### **A. FINANCIAL STATUS REPORTS**

Quarterly reports comparing expenditures and revenues to the current budget, projecting expenditures and revenues through the end of the year, noting the status of unassigned fund balances, assigned fund balances, and available working capital to include dollar amounts and percentages, and outlining any remedial actions necessary to maintain the City's financial position shall be prepared by the Finance Department and reviewed by the City Manager.

### **B. COMPLIANCE WITH CITY COUNCIL POLICIES**

All financial policies will be reviewed annually by the City Council and updated, revised, or refined as deemed necessary. The review will begin no later than the end of January. Policies adopted by the City Council are guidelines, and occasionally, exceptions may be required. However, exceptions to stated policies will be specifically identified, and the need for the exception will be documented and fully explained prior to receiving City Council consent for the variance.

### **C. MONITORING FINANCIAL POLICY COMPLIANCE**

1. External auditors will identify areas of non-compliance through the annual audit process.
2. At the request of City Council through the Audit Committee, the City Auditor will perform a more in-depth review of any portion of the policy.





## **VII. AUDITING AND FINANCIAL REPORTING**

The City shall comply with prevailing federal, state, and local statutes and regulations, as well as current professional principles and practices.

### **A. MONTHLY FINANCIAL REPORTING**

Monthly reports shall be prepared comparing expenditures and revenues to the current budget. Explanatory notes and charts may be included, as needed. A summary report on the contracts awarded, capital projects completed, and status of the City's various capital programs may be included in the monthly reports.

Preliminary reports shall be provided to the City Manager within twenty (20) days following the conclusion of each calendar month. The final monthly report will be provided to City Council through the City Manager (City Charter, Article VII, Section 70(3)) within thirty (30) days following the conclusion of each calendar month, and will be posted to the City's website.

### **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 generally accepted accounting and financial reporting principles established by GASB. The document shall also 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. The CAFR shall be filed with the City Secretary within 180 days of fiscal year end (Local Government Code §103.003).

### **C. EXTERNAL AUDIT**

Prior to the end of each fiscal year, the City Council shall designate qualified Certified Public Accountants who, as of the end of the fiscal year, shall make an independent audit of accounts and other evidences of financial transactions of the city government and shall submit their report to the City Council (City Charter, Article III, Section 40).

#### D. SELECTION OF AUDITORS

No later than every five years, the City shall request proposals from qualified independent firms of certified public accountants to perform an annual audit of the books of account, records and transactions, opine on the CAFR and Single Audit Report and report the results and recommendations to City Council (City Charter, Article III, Section 40). The Audit Committee shall review all proposals and submit their recommendation to the City Council for approval. The City shall change auditors no later than every five years.

#### E. INTERNAL AUDIT

The function of internal audit shall be an assignment of the City Council. The City Auditor will annually identify appropriate operations and practices to be reviewed in developing an annual Internal Audit Work Plan, which will be submitted to the Audit Committee for approval. Other projects may be added or amended as needs arise.

Reviews of operation on the identified topics will be conducted, examining for all fiduciary and financial controls, compliance, risk minimization, and general operational integrity. Recommendations and findings will be submitted to the Audit Committee for each work plan element, and the City Manager's Office will be responsible for implementation of proposed improvements. It is desirable to have periodic reviews of the franchise fees received by the City. The Audit Committee will determine the frequency and scope of the franchise fee review in the annual Internal Audit Work Plan.

Internal audit policies and procedures will be maintained by the internal audit department.

## VIII. REVENUES

### A. ACCEPTANCE OF DONATED PROPERTY

Restricted and unrestricted cash donations or other gifts offered to the City must be approved by the City Manager prior to acceptance. The determination to accept or reject the donation will be based upon the best interest of the City, considering such things as projected operating, maintenance, and insurance costs. The current donations programs are listed in Section XXIII of this document.

### B. USER FEES AND RATES

User fees shall be reviewed annually to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary. The City Council shall approve fees except when formally delegated to the City Manager.

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#### 1. USER FEES AND RATES APPROVED BY CITY COUNCIL

The City Council shall approve the fees and rates contained in this section. All other fees and rates are delegated to the City Manager.

- User fees and rates that statutorily require the approval of the governing body;
- Solid Waste Rates (Code of Ordinances, Chapter 24, Article II, Division 6, Section 24-115(a), and Section 24-116(a),(b),(c-1),(d), and (e));
- Street Maintenance Fee (Code of Ordinances, Chapter 25, Article VII, Section 25-230);
- Water Rates (Code of Ordinances, Chapter 30, Article IV, Division 2);
- Sewer Rates (Code of Ordinances, Chapter 30, Article IV, Division 2); and
- Drainage Utility Fee (Code of Ordinances, Chapter 32, Article I, Section 32-9).

The fees and rates delegated to the City Manager shall follow these parameters:

- The fees and rates shall not be higher than the average benchmark fee and/or rate of Killeen's average peer review cities.
- The City Manager shall cause to be published an annual fee schedule no later than the end of March for the following fiscal year.

Fees and rates that are not included in the annual fee schedule posted by the end of March must be approved by the City Manager and follow the benchmarking requirement above. These fees and rates will be incorporated into the annual fee schedule. Fees and rates affected by federal and/or state regulations will be revised to remain in compliance with federal and/or state law, and incorporated into the annual fee schedule.

The City Manager is authorized to change rates for promotional purposes.

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## 2. ENTERPRISE FUNDS

It is the intention of the City that all utilities and enterprise funds be self-supporting. Utility rates and enterprise fund user fees shall be set at levels sufficient to cover operating expenditures, meet debt obligations, bond coverage requirements, provide funding for capital improvements, and provide adequate levels of working capital. The City shall seek to eliminate all forms of subsidization to utility/enterprise funds from the General Fund.

Utility rate analyses shall be performed no later than every three (3) years.

User fees, particularly utility rates, should identify the relative costs of serving different classes of customers to the extent possible.

Free services will be provided to no one.

## C. WATER AND SEWER RATE

Water and Sewer rates are comprised of multiple components. The components of the rates include a (1) base charge and a (2) variable rate charge.

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### 1. WATER RATE

Base charge – applies to users that consume 0 – 2,000 gallons monthly.

Variable rate charge – applies to users that exceed 2,000 gallons monthly:

- 2,001 to 25,000 gallons – \$3.17 per 1,000 gallons
- 25,000+ gallons – \$3.78 per 1,000 gallons

Example of single-family residential unit that uses 6,000 gallons monthly:

Base charge	\$12.70
Variable rate charge	<u>12.68</u>
Total water charges	\$25.38

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## 2. SEWER RATE

Base charge – applies to users that consume 0 – 3,000 gallons monthly (base charge for single-family residential, and up to four unit multi-family residential property, includes \$0.50 for warranty protection of sewer lateral repairs within the right-of-way).

Variable rate charge – applies to users that exceed 3,000 gallons monthly (single-family residential capped at 10,000 gallons).

- 3,000 to 10,000 gallons - \$3.80 per 1,000 gallons (single-family residential)

Example of single-family residential unit that uses 6,000 gallons monthly:

Base charge	\$19.26
Variable rate charge	<u>11.40</u>
Total sewer charges	\$30.66

## D. SUPPLEMENTARY FUNDING

Where possible, the City of Killeen will maximize its financial resources by obtaining supplementary funding through contributions and agreements with other public and private agencies for the provision of public services or the construction of capital improvements.

## E. INVESTMENTS

The City shall have an investment policy and will invest idle cash to obtain interest income within the constraints of the policy. Section XXII of this document provides the policy. The investment policy established the following four objectives:

- Preservation of capital and the protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated disbursement and cash flow.

- Avoidance of any transaction that might impair public confidence in the City's ability to govern effectively.
- Attainment of a market rate of return equal to or higher than the performance measure established by the Executive Director of Finance that is commensurate with the acceptable risk and liquidity objectives of the policy.

#### **F. GRANTS**

The City will only utilize grants that meet the objectives and priorities identified by the City Council. Advance knowledge of how the City will pick up or abandon costs when a grant ends is required. Section XX of this document provides more information on the management of grants.

#### **G. USE OF ONE-TIME REVENUES**

The City shall use one-time revenues for one-time expenditures.

#### **H. USE OF UNPREDICTABLE REVENUES**

The City shall exercise caution with the use of unpredictable revenues for ongoing expenditures by directing such to one-time expenditures.

#### **I. REVENUE COLLECTION AND ADMINISTRATION**

The City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. In addition, since revenue should exceed the cost of producing it, the City shall strive to control and reduce administrative costs. The City shall, to the full extent allowed by state law, pursue collection of all delinquent taxes and other overdue payments owed the City.

#### **J. WRITE-OFF OF UNCOLLECTIBLE ACCOUNTS**

The City shall monitor payments due to the City (accounts receivable). The City Manager or designee has the authority to periodically write-off accounts where collection efforts have been exhausted and/or collection efforts are not feasible or cost-effective.

## **IX. OPERATING EXPENDITURES**

The City shall ensure fiscal stability and the effective and efficient delivery of services, through identification of necessary services, establishment of appropriate service levels, and careful administration of the expenditure of available resources.

### **A. CURRENT FUNDING BASIS**

The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled to not exceed current revenues plus the planned use of fund balance. (The Fund Balance/Working Capital Policy Statements shall guide the use of fund balance.)

### **B. AVOIDANCE OF OPERATING DEFICITS**

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of fund balance within the Fund Balance/Working Capital Policy Statements. Expenditure deferrals into the following fiscal year or use of one-time revenue sources for operating purposes shall be avoided.

### **C. PURCHASING**

The City shall have a purchasing policy that ensures the City conducts its purchasing and procurement functions efficiently and effectively, fully complying with applicable Federal and State laws, City ordinances, and in accordance with established internal controls. The City Manager will determine the method of purchase that provides the best value to the City in instances when a method other than competitive sealed bidding is being considered (Local Government Code § 252.02(C)).

The City may refuse to enter into any contract or other transaction with any person or entity that is indebted to the City (Local Government Code § 252.0436(A)).

The City will not contract with entities that are involved in litigation with the City without City Council approval.

The City Manager may approve all contract change orders that involve an increase or decrease to the original contract of \$50,000 or less (Local Government Code § 252.048(C)). However, once the cumulative amount of change orders for a single contract reach \$500,000, all future change orders for the contract must be taken to

the City Council for approval, regardless of the amount (Governing Standards and Expectations, Sec. 4-160).

The City will move toward centralized purchasing in accordance with a plan to be established by the City Manager.

#### D. CLASSIFICATION OF OPERATING EXPENDITURES

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

- Salaries and Benefits
- Maintenance and Supplies
- Professional Services
- Contracts
- Capital Outlay (Exclusive of CIP projects)

#### E. ANNUAL APPROPRIATION

The annual budget appropriations shall equal the estimated revenues and match recurring revenues with recurring expenditures to the extent possible. The budget will be established in a manner to minimize the impact on the quality and scope of city services.

#### F. CONTINUOUS IMPROVEMENT

The City Manager shall strive to undertake periodic staff and third-party reviews of City programs for both efficiency and effectiveness. As appropriate, the privatization and contracting of services with other governmental agencies or private entities will be evaluated as alternative approaches to service delivery. Programs that are determined to be unresponsive, inefficient, and/or ineffective shall be reduced in scope or eliminated.

#### G. PERSONNEL EXPENDITURES

Personnel 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.



## H. MAINTENANCE OF CAPITAL ASSETS

The City shall strive to maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to continue service levels. Future maintenance costs will be estimated and planned for at the time a capital project is approved.



## **X. FUND BALANCE**

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.

### **A. GOVERNMENTAL FUND BALANCES**

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 18-22% of operating expenditures to mitigate financial risk that can occur from unforeseen revenue fluctuations, significant unanticipated expenditures, and natural disasters.

The annual budget shall be presented to City Council with the General Fund reflecting an ending unassigned fund balance in the current budget year, which is no less than 18% of that fund's annual operating expenditures. The City considers a balance less than 18% to be cause for concern, barring unusual or deliberate circumstances. If unassigned fund balance falls below the established minimum, the City shall refrain from making additional appropriations from fund balance and shall appropriate funds in future budgets to replenish the fund balance based upon a time table deemed adequate by the City Council, not to exceed three years.

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#### **1. DEBT SERVICE FUND**

The City will maintain a debt service reserve in the General Debt Service Fund in an amount that ensures compliance with outstanding bond covenants and related bond requirements.

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#### **2. SPECIAL REVENUE FUNDS**

The City will maintain an unassigned fund balance of 18-22% of operating expenses (including operating transfers out and debt service payments) in the following special revenue fund:

- Hotel/Motel Tax Fund

## B. ORDER OF FUND EXPENDITURE

The City will utilize funds in the following spending order:

- Restricted
- Committed
- Assigned
- Unassigned

## C. FUND BALANCE APPROPRIATIONS

General Fund unassigned fund balances in excess of the 22% goal established above shall be transferred to the Capital Projects Fund. The City of Killeen 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 document shall include an explanation of the circumstances requiring the appropriation and the methods to be used to address the future use of fund balance for operating expenditures.

## D. NON-GOVERNMENTAL FUND BALANCES

Insofar as the above 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 proprietary funds, in order to ensure continued operation in the event of a natural disaster or significant shortfall in revenues. The proprietary funds will pay (where applicable) their fair share of general and administrative expenses, in-lieu-of-property taxes, and/or franchise fees.

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### 1. ENTERPRISE FUNDS

The City will maintain a working capital balance (current assets minus current liabilities) of 18-22% of operating expenses (including operating transfers out and debt service payments) to mitigate financial risk. The annual budget shall be presented to Council with each proprietary fund reflecting an ending working capital balance that is no less than 18% of operating expenses.

Working capital balances in excess of the 22% goal established above shall be appropriated for non-recurring capital projects or programs. Should working capital fall below the minimum, the City shall refrain from making additional appropriations from fund net assets. If a proprietary fund is

temporarily unable to pay all expenses, then the City Manager may waive general and administrative expenses, in-lieu-of-property taxes, and/or franchise fees until the fund is able to pay them. The City Council may pay out-of-pocket expenses that a fund is temporarily unable to pay with inter-fund loans, to be repaid at a future date.

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2. ENTERPRISE FUNDS – DEBT SERVICE RESERVE

The City will maintain a minimum debt service reserve for enterprise funds in an amount that ensures compliance with outstanding bond covenants and related bond requirements.

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3. INTERNAL SERVICE FUNDS

The City will maintain a minimum working capital balance of 3% of operating expenditures (including operating transfers out) to mitigate financial risk. The annual budget shall be presented to City Council with each internal service fund reflecting an ending working capital balance that is no less than three percent of operating expenditures (including operating transfers out). This calculation does not include non-recurring items.

Working capital balances in excess of 3% shall be appropriated for non-recurring capital expenses, capital projects, or returned to the contributing fund. Should working capital fall below the minimum, the City shall refrain from making additional appropriations from fund net assets.

In addition, the City acknowledges that initially, not all proprietary funds will meet the minimum requirement for working capital outlined in this policy. A fund will be considered compliant with this policy as long as the financial position shows continuous improvement each fiscal year.



## **XI. INTER-FUND LOANS**

Inter-fund loans are amounts provided between funds of the City of Killeen with a requirement for repayment.

### **A. SHORT-TERM BORROWING**

The City Manager is authorized to approve temporary inter-fund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 45 days. The most common use of inter-fund borrowings under this circumstance is for grant programs like the Community Development Block Grant, where costs are incurred before drawdowns are initiated and received. However, receipt of funds is typically received shortly after the request for funds has been made.

### **B. REVIEW AND APPROVAL**

Any movement of funds from one fund to another (with the exception of short-term borrowings above) requires the approval of City Council. Additionally, all inter-fund loan proposals must be reviewed and approved by the Executive Director of Finance and the City Manager or designee.

### **C. FUNDING SOURCE FOR LOANS**

The funding source of all inter-fund loans must be idle cash on deposit in a fund. During the term of the loan, the outstanding balance at any time must not be needed to finance normal operations. Adequate documentation (i.e., cash flow analysis) is required to support that loaned funds are idle.

### **D. USE OF LOAN PROCEEDS**

Inter-fund loans must only be made to finance short-term operating or capital needs of the borrowing fund. Short-term is defined as a period up to five (5) years.

### **E. REPAYMENT SOURCE**

The borrowing funds must have an identified revenue stream for the repayment of all principal and interest incurred. Management must provide documentation of ability to repay the obligation, and the department incurring the loan must execute an agreement described in section F below. Loans will not be approved if the obligor fund cannot substantiate the ability to finance current business and capital operations, make agreed upon loan repayments, and maintain sufficient cash to meet emergency needs.

## F. REPAYMENT TERM

All inter-fund loans must be repaid in no more than five (5) years from the date loan documents are executed.

## G. LEGAL DOCUMENTATION

All inter-fund loans are approved by the City Council and are consummated by loan agreements. Those agreements will stipulate the loan purpose, the loan amount, the term, repayment source, interest rate, and other information as required by the City's legal department.

## H. REPAYMENT

All idle City cash is pooled and invested to earn a return. The lending fund should recover this foregone investment revenue. Therefore, inter-fund loans are interest bearing except for advance funding for grants, reimbursement resolutions, or when senior management finds it appropriate to forego the payment of interest. The interest rate charged and paid must comply with all applicable laws and regulations. At a minimum, the rate charged will equal the weighted average return earned on the City's pooled cash.

## I. PROPRIETARY FUND LOANS

Excess pledged revenues can be used to make loans to other City Funds. Before making that determination, the proprietary fund must cover all obligations for operation and maintenance expenses, debt service expenses, debt service coverage, transfers to the General Fund, and operation reserve requirement.

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### 1. PURPOSE OF THE LOAN

To fund non-proprietary fund capital projects for which there is no other viable funding source, and which total amount falls between a minimum and maximum threshold.



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2. AGREEMENT

A formal written agreement between the proprietary fund and the receiving fund, clearly defining the terms and conditions of the agreement should be in place.

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3. DETERMINATION OF SURPLUS

Prior to a loan agreement being made, a determination of surplus must be made by meeting the following criteria:

- There is sufficient excess pledged revenues
- Coverage amounts meet or exceed the recommended ratios; and
- The reserve requirements are met.



## **XII. INTER-FUND TRANSFERS**

All inter-fund transfers between funds must be authorized by City Council. This authorization is obtained by approval of the Annual Budget or through budget amendment.

### **A. OPERATING FUNDS**

Inter-fund transfers are used to pay for actual general and administrative costs and to charge franchise fees to Proprietary Funds. Franchise fees (street rental fees) are assessed for the General Fund to gain back a portion of costs for the wear and tear on its streets, alleys, and rights-of-way and shall be limited to 9% of actual revenues within the applicable proprietary funds.

All inter-fund transfers between funds must be authorized by City Council. This authorization is obtained by approval of the Annual Budget or through budget amendment.

### **B. CAPITAL PROJECTS FUNDS**

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#### **1. GENERAL FUND**

Fund balances in excess of the 22% goal in the General Fund will be transferred to the Capital Projects Fund.

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#### **2. BOND FUNDS**

Surplus bond proceeds may be transferred to:

- Another bond fund of the same purpose.
- The debt service fund to reduce outstanding debt.
- Operating funds due to reimbursement resolutions approved by City Council

### **C. ENTERPRISE FUNDS**

Working capital in excess of the 22% goal in the enterprise funds will be transferred to the corresponding enterprise capital projects fund.



### **XIII. CAPITAL EQUIPMENT/PROJECT EXPENDITURES**

The City shall annually review the needs for capital improvements and equipment, the current status of the City's infrastructure, replacement and renovation needs, and potential new projects. All projects, ongoing and proposed, shall be prioritized based on an analysis of current needs and resource availability. For every capital project, all operation, maintenance, and replacement costs shall be fully costed, considered, and built into the long-term operating budget forecast.

#### **A. 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 \$100,000 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 groups or similar items.
- Only capital improvements that lengthen the estimated useful life of an asset or increase service capacity (effectiveness or efficiency) will be capitalized. Repairs and maintenance for an asset to retain its value are not capitalized.
- Records and procedures will be established to ensure adequate control over non-capitalized tangible assets. Departments must submit a certified report of all non-capitalized tangible assets to the Finance Department annually. It shall be the responsibility of the individual department directors to maintain records sufficient to demonstrate compliance with this policy.

#### **B. CAPITAL EQUIPMENT**

The City shall annually prepare a schedule for the replacement of its non-infrastructure capital assets (i.e., Fleet). Within the resources available each year, the City shall replace these assets according to the aforementioned schedule.

Expenditures for new (not replacement) capital equipment shall be made only to enhance employee productivity, improve quality of service, or expand scope of service.

## C. CAPITAL PROJECT EXPENDITURES

The City shall have capital projects policies to establish the basic framework for the planning, development, funding, and construction of capital improvement program projects. Capital projects are intended to include infrastructure or facility improvements and maintenance needs that exceed \$100,000 and have a useful life exceeding one-year.

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### 1. CIP BUDGET CARRYOVER

Appropriations for CIP projects lapse three years after budget adoption due to lack of activity. Projects which lapse from lack of project account appropriations may be resubmitted for inclusion in a subsequent CIP. Project accounts, which have been appropriated, will not lapse until completion of the project.

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### 2. CAPITAL PROJECTS RESERVE FUND

A Capital Projects Reserve Fund shall be established and maintained to accumulate reimbursements from other governmental agencies for the prior purchase of real property assets, proceeds from an occasional sale of surplus real property as approved by City Council, and transfers from the General Fund unassigned fund balance. This fund shall only be used to pay for expenditures such as land and building purchases, material maintenance and repairs, construction projects, feasibility, design, and engineering studies related to such projects, capital equipment and vehicles, and technology improvements. Expenditures from this fund should be aimed at protecting the health and safety of citizens and employees, protecting the existing assets of the City, ensuring public access to City facilities and information, and promoting community-wide economic development.

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### 3. UTILITY CAPITAL EXPENDITURES

The City of Killeen uses three funding sources for utility capital expenditures. First, utility rates will be designed to provide sufficient funding for a depreciation reserve which accumulates resources to replace or rehabilitate aging infrastructure. Second, the multi-year financial plan provides debt strategies to finance needed capital items. Third, annual transfers are made to capital rehabilitation and renewal projects from utility operations to maintain adequate funding for capital items.

## D. FINANCING

The City recognizes that there are three basic methods of financing capital needs. Funding may be budgeted and covered by current revenues, may come from fund balance, or borrowed through the issuance of debt. Debt financing includes general obligation bonds, revenue bonds, certificates of obligation, lease/purchase agreements, certificates of participation, tax notes, and other obligations permitted to be issued or incurred under Texas law. Guidelines for assuming debt are set forth in the Debt Policy Statements.

## E. SURPLUS BOND FUNDS

Surplus project funds may become available after the completion of a specific, authorized bond project or may result when a bond project is modified or eliminated without being simultaneously replaced by another eligible project. Surplus bond funds may be used for projects consistent with the authorized purpose of the bonds per the bond covenant to:

- Finance cost overruns on bond projects within the same bond proposition;
- Fund emergency projects;
- Reduce outstanding debt at the end of the bond program; and
- Fund newly identified projects within the authorized purposes of an approved bond proposition only after all authorized projects/categories within the same proposition are substantially complete. A project would be considered substantially complete when design has been fully completed, construction is substantially underway, and staff has prepared cost projections that include ample contingencies to complete the project in the event unforeseen costs should arise.





## XIV. DEBT

The City will attempt to support capital projects with appropriations from operating revenues or excess fund balances (i.e. “pay-as-you-go”) to minimize the issuance of debt.

### A. PRINCIPLES

- To minimize interest payments on issued debt, the City will maintain a rapid debt retirement policy by issuing debt with maximum maturities not exceeding the lesser of 25 years or the useful life of the improvement. Retirement of debt principal will be structured to ensure constant annual debt payments.
- The City will attempt to maintain base bond ratings (prior to insurance) equivalent to AA. The City shall continue to seek to enhance its credit quality by frequent contact and visits with the rating agencies, and monitoring the current trends and guidance from the agencies.
- When needed to minimize annual debt payments, the City will obtain insurance for new debt issues.
- Generally, competitive sale is preferred to a negotiated sale.
- In order to minimize the impact of debt issuance on the property tax rate and to assist the City in meeting its arbitrage requirements, the City will consider the sequential sale of bonds for the purpose of financing capital projects.

### B. USE OF DEBT FINANCING

Debt financing, to include general obligation bonds, revenue bonds, certificates of obligation, certificates of participation, tax notes, lease/purchase agreements, and other obligations permitted to be issued or incurred under Texas law, shall only be used to purchase capital assets and equipment that cannot be prudently acquired from either current revenues, assigned fund balance, or net position, and to fund infrastructure improvements and additions. The useful life of the asset or project should exceed the payout schedule of any debt the City assumes.

### C. ASSUMPTION OF ADDITIONAL DEBT

The City shall not assume more tax-supported general-purpose debt than it retires each year without conducting an objective analysis as to the City’s ability to assume and support additional debt service payments. When appropriate, self-supporting revenue bonds shall be considered before general obligation bonds.

## D. AFFORDABILITY TARGETS

### 1. GENERAL OBLIGATION BONDS

The City shall use an objective analytical approach to determine whether it can afford to assume new general-purpose debt (General Obligation bonds, tax notes, and Certificates of Obligation) beyond what it retires each year. This process shall take into consideration any potential impact to the City's credit ratings, the growth in the City's taxable assessed value, and the direct costs and benefits of the proposed expenditures. The decision on whether or not to assume new debt shall be based on these costs and benefits, the current conditions of the municipal bond market, and the City's ability to "afford" new debt as determined by the aforementioned standards.

### 2. REVENUE BONDS

Revenue bonds are secured solely by the revenues of an enterprise fund. As a result, the credit markets look at the type of enterprise securing the payment of debt service on the bonds to determine the level of security necessary for the purchase of the bonds.

Whether revenue bonds can be secured with gross revenues of the enterprise or net revenues (i.e., those revenues remaining after paying costs of operation and maintenance) is often determined by law. Coverage requirements, and the need for and level of reserve funds to provide additional security in support of revenue bonds, are subject to rating agency review and market standards.

Generally, for the City to issue additional water and sewer revenue bonds, net revenues, as defined in the ordinance authorizing revenue bonds, shall be a minimum of 125% of the average annual debt service. Annual adjustments to the City's rate structures will be made as necessary to maintain a minimum 125% coverage factor. Exceptions to these standards must be fully explained and justified.

Generally, for the City to issue additional drainage revenue bonds, gross revenues, as defined in the ordinance authorizing the revenue bonds, shall be at least 125% of the maximum annual debt service; net revenues (after operations and maintenance expenses) should be at least 125% of the annual debt service for financial planning purposes. Annual adjustments to the City's rate structures will be made necessary to maintain a minimum 125% coverage factor for net revenues.

Revenue bonds that may be issued to finance improvements for other enterprise fund activities (e.g., airports, convention centers, or solid waste facilities) will necessitate the consideration of coverage and reserve fund requirements unique to the enterprise fund, such that the revenue bonds will be creditworthy and marketable.

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### 3. CERTIFICATES OF OBLIGATION

Certificates of Obligation may be issued without public election to finance any public work project or capital improvement, as permitted by State law. However, it is the policy of the City to utilize Certificates of Obligation to finance public improvements for special circumstances and only after determining the City's ability to assume additional debt based on the standards identified above. Those special circumstances in which Certificates might be issued include, but are not limited to:

- Advance design of projects to get them “shovel ready” and accurately determine the bond amount.
- Cost overruns on a general obligation bond-financed capital improvement have occurred;
- “Emergency” conditions require a capital improvement to be funded rapidly including an evaluation of projects that are deemed to be non-discretionary and requires City action;
- Financial opportunities unexpectedly arise to leverage funds from other entities and reduce the City's capital cost for a community improvement;
- A capital improvement is a revenue-producing facility, but due to the nature of the project or the time it takes for the facility to become operational and produce revenues, the improvement may not generate sufficient revenues throughout the life of the improvement to support the indebtedness secured solely by the revenues to be produced by the improvement;
- It would be more economical to issue Certificates of Obligation rather than issuing revenue bonds;
- The timing of the construction of a capital improvement and the expense of calling a bond election for a single proposition would, in the opinion of staff and with the approval of the City Council, warrant the issuance of Certificates of Obligation to finance the capital improvement.

#### E. CALL PROVISIONS

Call provisions for bond issues shall be made as short as possible without penalty consistent with the lowest interest cost to the City. When possible, all bonds shall be callable only at par.

#### F. SALE PROCESS

The City shall use a competitive bidding process in the sale of debt unless the nature of the issue or market conditions warrants a negotiated sale.

#### G. TIMING OF SALES

The City may use the cash received through the issuance of notes pursuant to the appropriation authority that may be available in accordance with the commercial paper programs to begin capital projects approved under those programs. The City may also consider using reimbursement resolutions and its cash to initiate certain projects. Consideration should be given to any lost interest earnings on the City's cash compared to the anticipated interest expense associated with the issuance of obligations by the City. This process will improve the City's ability to time its entry into the long-term fixed rate market and to manage its debt issuances and debt payments in order to minimize the impact on tax rates and utility rates.

#### H. RATING AGENCY PRESENTATIONS

Full disclosure of operations and open lines of communication shall be made to the rating agencies. City staff shall prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, currently Moody's, Standard & Poor's, and Fitch.

## I. CONTINUING DISCLOSURE

The City is committed to providing continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. The City will work with Bond Counsel and its Financial Advisor to assist with meeting the requirements set forth in SEC Rule 15c2-12.

## J. DEBT REFUNDING

City staff shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular advance refunding (i.e., bonds that are paid off on a date that is more than 90 days after the date the refunding bonds are issued) should exceed 3.5% of the par amount of the refunded maturities.

## K. POST BOND ISSUANCE FEDERAL TAX COMPLIANCE

The City has issued or will issue from time to time bonds, notes or other tax-exempt obligations (collectively, the "Bonds"). The City is required by the terms of Section 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended ("Code"), and the U.S. Treasury Regulations promulgated thereunder ("Regulations"), to preserve the tax-exempt status of its Bonds subsequent to their issuance. Further, the Code and the Regulations impose record retention requirements on the City with respect to its Bonds.



## **XV. CASH MANAGEMENT**

Deposits of cash shall be made daily. The timing 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. Written guidelines on cash handling, accounting, segregation of duties, and other financial matters shall be maintained.

### **A. POOLED CASH**

In order to provide liquidity adequate to meet the needs and demands of providing governmental services including unanticipated reductions in revenues or unplanned increases in expenditures, cash balances will be maintained and managed through the Pooled Cash method in such a way as to minimize short-term borrowing. This reduces overall cost to taxpayers by minimizing interest expense.

### **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 Investment 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 multi-year period, and banking services proposals shall be reviewed by the Investment Committee. In general, the City will seek proposals from depository banks every five years, although it is under no obligation to change.





## **XVI. INTERNAL CONTROLS**

The City shall establish and maintain an internal control structure designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.

### **A. BASIC ELEMENTS OF INTERNAL CONTROL**

#### **1. AUTHORIZATION**

All transactions are properly authorized by management.

#### **2. COMPUTER DATA PROCESSING**

Procedures shall be designed to control development, modification, and maintenance of computer programs; use and changes to data maintained on computer files; application controls, for example, edits that verify vendor numbers for check writing.

The Finance Department will establish application controls and user access levels to the City's financial system to be implemented by the Information Technology Services Department. The Finance Department must authorize all access requests prior to implementation.

#### **3. SEGREGATION OF DUTIES**

The organizational plan should separate functional responsibilities. Procedures designed to detect errors and irregularities should be performed by persons other than those who are in a position to approve them, and those persons should be made aware of the avenues available to them for reporting those errors and irregularities, including but not limited to their chain-of-command, City Auditor, and City Attorney.

#### **4. EXECUTION OF TRANSACTIONS**

There is reasonable assurance that transactions are executed as authorized.

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5. RECORDING OF TRANSACTIONS

Transactions are recorded as necessary to permit preparation of financial statements in conformance to statutory requirements and accounting principles generally accepted in the United States, and to maintain accountability for assets.

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6. ACCESS TO ASSETS

Access to assets and records should be permitted only with management's authorization.

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7. PERIODIC INDEPENDENT VERIFICATION

The records should be checked against the assets by someone other than the persons responsible for the records or the assets, and the person checking the records should be made aware of his or her avenues for reporting irregularities or errors, including but not limited to his or her chain-of-command, City Auditor, or City Attorney. Examples of independent verification are monthly bank reconciliations and periodic counts of inventory.

**B. WRITTEN PROCEDURES**

Written procedures will be maintained by the Finance Department for all functions involving the handling of cash and securities. These procedures shall embrace sound internal control principles.

**C. FINANCE DEPARTMENT RESPONSIBILITIES**

The Finance Department shall issue internal control procedures based upon deficiencies that have been identified by City staff, the internal auditor, or the independent auditors. Finance shall ensure that a good faith effort is made to implement all independent auditor recommendations pertaining to internal control. The Finance Department will administer an "in-house audit" program to regularly and systematically review and monitor internal control procedures and compliance with federal and state regulatory requirements pertaining to internal controls or financial reporting.

#### D. DEPARTMENT HEAD RESPONSIBILITIES

Each department head is responsible to ensure that internal control procedures, including those issued by the Finance Department, are followed throughout the department.



## **XVII. ECONOMIC DEVELOPMENT**

The City shall have an economic development policy for promoting new development or redevelopment within the city that will promote economic improvement, stimulate commercial activity, generate additional sales tax, and that will enhance the property tax base and economic vitality of the City.



## **XVIII. E-COMMERCE**

The City shall fully utilize available technologies to expedite cash payments and receipts, enhance employee productivity, and provide customer satisfaction.

### **A. FULLY INTEGRATED FINANCIAL SYSTEMS**

All E-Commerce systems and procedures must fully and transparently integrate with the City's financial and accounting systems, its depository bank systems, and any other City information system which interfaces with an E-Commerce system.

### **B. EMERGING TECHNOLOGIES**

The City will work closely with its depository bank and other financial partners to evaluate and implement the standard industry accepted technologies that prove to be efficient and effective in pursuit of the City's E-Commerce goals.

### **C. VENDOR E-PAYMENTS**

The City will actively migrate vendor payments from paper checks to other forms of payment, including but not limited to:

- Automated Clearing House (ACH) payments;
- Wire transfers; and
- Virtual credit cards payments.

### **D. DIRECT DEPOSITS**

The City will actively migrate payroll payments from paper checks, to electronic formats, including but not limited to direct deposits.

### **E. INTERNET PAYMENT OPTIONS**

Working with its depository bank and other financial partners, the City will seek to develop and implement internet payment options of best practices which will allow customers and citizens to pay bills due the City conveniently and securely.

### **F. FUNDING FOR SERVICE FEES**

The City will work towards building the cost of e-payments into the cost of products and services rather than having an add-on fee.

## G. INFORMATION SECURITY

The City will employ security measures consistent with best practice and the City's information security policy to ensure the integrity and confidentiality of customer and citizen data that is stored or is a component of transactions utilizing the City's information technology infrastructure or that of its service providers.



## **XIX. FINANCIAL CONSULTANTS**

The City shall seek out and employ the assistance of qualified financial advisors and consultants as needed in the management and administration of the City's financial functions. Financial advisors and consultants that provide professional services as defined by Texas Government Code 2254 and Local Government Code 252.022 are exempted from competitive bidding requirements.

If exempted from competitive bidding requirements, the professional service provider shall be selected using requests for qualifications and based upon demonstrated expertise relative to the scope of work to be performed. Non-exempted service providers will be selected following competitive bidding requirements. Examples of services provided by financial advisors and consultants include but are not limited to investments, debt administration, financial accounting systems, program evaluation, and financial impact modeling.



## **XX. GRANTS**

The City shall seek, apply for, and effectively administer federal, state, and foundation grants-in-aid that address the City's current priorities and policy objectives

### **A. GUIDELINES**

The City shall apply, and facilitate the application by others, for only those grants that are consistent with the objectives and high priority needs previously identified by City Council. The potential for incurring ongoing costs, to include the assumption of support for grant-funded positions from local revenues, will be identified, planned, and considered prior to applying for a grant.

### **B. INDIRECT COSTS**

The City shall recover full indirect costs unless the funding agency does not permit it. The City may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.

### **C. REVIEW**

All grant submittals shall be reviewed by the Finance Department for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's policy objectives. If there are cash match requirements, the source of funding shall be identified prior to application. If there is a future year's obligation, the source of funding shall be identified prior to application to ensure available cash-flow to meet those obligations.

### **D. PROGRAM TERMINATION**

The City shall terminate grant-funded programs and associated positions when grant funds are no longer available unless alternate funding is identified and programmed into the long-term financial plan.



## **XXI. WAIVING LIENS FOR DEMOLITION OF DANGEROUS BUILDINGS OR HEALTH AND SAFETY ABATEMENTS**

### **A. PURPOSE**

This policy establishes the guidelines for waiving and releasing liens placed on property by the City, and specifically covers those liens placed for demolition of a dangerous building or abatement of health and safety violations.

### **B. DEMOLITION AND HEALTH AND SAFETY ABATEMENT**

Pursuant to Chapter 8 of the City of Killeen Code of Ordinances, dangerous buildings or structures are a public nuisance and shall be abated. The city shall comply with all requirements in state law and Chapter 8, as may be amended in the future, in demolishing dangerous buildings.

Nuisances found in Chapter 18 of the City of Killeen Code of Ordinances include high weeds and grass; dangerous weeds over 48 inches; accumulation of litter, trash or rubbish; littering by depositing or dumping; stagnant water; allowing unsanitary conditions; care of premises; and accumulation of fill dirt. These are considered public nuisance pursuant to Chapter 18. The City shall comply with all requirements in state law and Chapter 18, as may be amended, in abatement of public nuisances.

### **C. FUNDING**

Demolition of dangerous buildings shall be completed using any funds available to the responsible department, including the City's General Fund and Community Development Block Grant ("CDBG") funds as allowed. Abatement of health and safety nuisances shall be completed using any available funds, but CDBG funds shall not be used.

### **D. PLACEMENT OF LIEN**

If the owner(s) of property fails to reimburse the city for the costs of demolishing a dangerous building or abatement of a health and safety violation, after the city has given required notice and time to pay, the city shall place a lien on real property on which the violation occurred. The lien shall accrue interest at the rate provided by law until the lien is paid or otherwise released.

#### E. PROCEDURE FOR WAIVING LIENS

Liens may be waived when Bell County Tax Appraisal District has placed a property into trust for failing to sell in previous sheriff's sales and the city did not previously waive liens. When a property is in trust, the city is responsible for maintenance of the property and may not place additional liens for any abatement to remedy the violation. By the time a property is placed in trust, the city has also made multiple unsuccessful attempts to collect on the liens placed during demolition.

If the City elects to intervene as a party to a foreclosure for delinquent taxes by the Bell County Tax Appraisal District, liens are not waived but instead are extinguished in the foreclosure process.

The City shall not waive liens at the request of a property owner unless, after investigation by City staff, it is determined that the lien was placed in error.

The City Council shall retain authority to waive liens not outlined in this policy and upon any finding of a public purpose.

When liens are waived, a release of lien will be prepared, and filed with Bell County.

#### F. PUBLIC PURPOSE

The public purpose served by waiving outstanding liens is to make the properties more marketable by Bell County Tax Appraisal District at sheriff's sales, since often the liens exceed the value of the property and discourage buyers. It will also reduce the amount of time and money the city spends maintaining the real property placed in trust.

#### G. WAIVER OF INTEREST ON LIENS

The City makes various attempts to collect outstanding liens, which includes administrative fees and interest that accrues by law from the time of filing with Bell County. Property owners often claim no knowledge of the lien or that a property management company should be responsible. As stated above, the City shall not waive liens at the request of a property owner. The City may waive interest and/or administrative fees on a lien where there is a benefit to the City. Such requests shall be reviewed by the City Manager or his/her designee for approval.

## XXII. INVESTMENT POLICY

### A. SCOPE

The Investment Policy applies to the investment activities of the Government of the City of Killeen (the “City”). These policies serve to satisfy the statutory requirements of the Texas Government Code Chapters 2256 (the “Public Funds Investment Act” or the “Act”) and 2257 (the “Collateral Act”) to define and adopt a formal investment policy. This Policy will be reviewed and adopted by resolution of the City Council at least annually according to the Act.

#### 1. FUNDS INCLUDED

All financial assets of all funds of the City, including the General Fund, Drainage Utility Fund, Water and Sewer Utility Fund, Airport Fund, Sanitation Fund, Capital Projects Funds, Special Revenue Funds, Debt Service Funds, and all other funds that may be created by the City from time to time, and any funds held in the City’s custody, unless expressly prohibited by law or unless it is in contravention of any depository contract between the City and any depository bank are subject to this Policy. The Killeen Economic Development Corporation shall be incorporated as a component unit.

#### 2. FUNDS EXCLUDED

This Policy does not apply to funds invested in the City’s Deferred Compensation Plan nor to investments in the Firemen’s Pension Fund, which is covered by a separate investment policy adopted by the Firemen’s Pension Board.

### B. INVESTMENT OBJECTIVES

#### 1. SAFETY

Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Diversification strategies shall be determined and revised periodically.

#### 2. LIQUIDITY

The investment portfolio will remain sufficiently liquid to enable the City to pay current obligations as they become due. Portfolio maturities will be structured to meet the obligations of the City first, and then to achieve the highest return of interest consistent with the objectives of this Policy. When

the City has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund.

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3. PUBLIC TRUST

Investment Officers shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

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4. YIELD

It will be the objective of the City to earn the optimum rate of return allowed on its investments within the constraints imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

## C. INVESTMENT COMMITTEE

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1. MEMBERS

The members of the City's Investment Committee shall be the Mayor of the City (or his/her designee), the City Manager (or his/her designee), the Executive Director of Finance, the Controller and a member designated by the Executive Director of Finance. The Investment Committee shall receive quarterly reports, as outlined in this Policy, and monitor the results and performance of the investment portfolio.

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2. SCOPE

The Investment Committee shall include in its deliberations such topics as: investment strategy, return on investments, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, independent training sources, and authorized broker/dealers.

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3. PROCEDURES

The Investment Committee shall provide minutes of its meetings. Any member may request a special meeting, and three members shall constitute a quorum. The Investment Committee shall establish its own rules of procedure.



## D. RESPONSIBILITY AND CONTROL

### 1. DELEGATION

Management responsibility for the investment program is hereby delegated to the Executive Director of Finance, who is responsible for all investment decisions and activities. The Executive Director of Finance and Controller shall be the City's Investment Officers. Investment Officers are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage City funds according to this Policy. The Executive Director of Finance may designate specific City personnel to assist with various investment-related activities. The Executive Director of Finance shall be responsible for all transactions and compliance with the internal controls to ensure that the safekeeping, custodial, and collateral duties are consistent with this Investment Policy.

### 2. MANAGEMENT AND INTERNAL CONTROLS

The Executive Director of Finance shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Investment Committee and with the independent auditor. The controls shall be designed to reasonably prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Dual control of all investment activities will consistently be maintained by the Executive Director of Finance and the City Controller.

### 3. INVESTMENT MANAGEMENT FIRM

The City Council may contract with an investment management firm, registered under the Investment Advisor's Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for the investment and management of the funds of the City. The contract will be for a term no longer than two (2) years. Renewal or extension of the contract must be in compliance with the Act.

### 4. TRANSACTION AUTHORITY

Certain signatory responsibilities are required to transact investments. Positions authorized as depository signatories shall be the City Manager and the Investment Officers.

The persons holding these positions are also designated as authorized to transact wire transfers in accordance with the goals and objectives of the City's investment strategy.

Bonding of all those individuals authorized to place, purchase, or sell investment instruments shall be required.

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5. PRUDENCE

In accordance with the Act, investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; maintenance of adequate liquidity; and achievement of risk-appropriate yield. This investment principle shall be applied in the context of managing the overall investment portfolio.

An Investment Officer, when acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds, or funds under the control of the City, over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with the written Investment Policy.

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6. TRAINING, QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT

It is the City's policy to provide training as required by the Act for the Investment Officers. Authorized Investment Officers will be required to complete 10 hours of training within 12 months of assuming duties. In order to ensure the quality, capability and competency of all Investment Officers in making investment decisions training shall be provided through courses and seminars offered by the independent sources approved by the Investment Committee. The training must include education in investment

controls, security risks, strategy risks, market risks, diversification of investment, and compliance with the Act. After the initial training requirement, at a minimum, all Investment Officers must attend training at least every two years and accumulate 8 hours of training. The two-year period shall begin on the first day of the City's fiscal year and consist of the two consecutive fiscal years after that date.

## E. ETHICS

### 1. CONFLICTS OF INTEREST

Officers and employees directly involved in the investment process, including members of the Investment Committee and those authorized as depository signatories, shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

### 2. DISCLOSURE

Such employees shall disclose to the City Manager any material financial interests they have in business organizations that conduct business with the City, and shall further disclose any large personal financial or investment positions, as defined by the Public Funds Investment Act, that could be related to the performance of the City's portfolio. Disclosure items include:

1. the employee owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. funds received by the employee from the business organization exceed 10 percent of the employee's gross income for the previous year; or
3. the employee has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the employee.

Such employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

If any Investment Officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an

individual seeking to sell an investment to the City, the Investment Officer must file a statement disclosing that personal business interest or relationship with the City Council and with the Texas Ethics Commission in accordance with the Act.

## F. REPORTING INVESTMENT EARNING EVALUATION

### 1. QUARTERLY REPORTS

In accordance with the Act, not less than quarterly, the Investment Officers shall prepare and submit to the City Council a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

1. describe in detail the investment position of the City on the date of the report;
2. be prepared jointly by all Investment Officers;
3. be signed by each Investment Officer;
4. contain a summary statement of each pooled fund group that states the:
  - a.) beginning market value for the reporting period;
  - b.) ending market value for the period; and
  - c.) fully accrued interest for the reporting period.
5. state the 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;
6. state the maturity date of each separately invested asset that has a maturity date;
7. state the account or fund or pooled group fund in the City for which each individual investment was acquired;
8. state the compliance of the investment portfolio of the City as it relates to:
  - a.) the investment strategy expressed in the City's Investment Policy; and
  - b.) relevant provisions of the Act; and
9. state the rate of return on the investment portfolio calculated as the weighted average yield to maturity.

Market valuations obtained by the City shall be from sources believed to be accurate and representative of the investment's true value.

The quarterly investment reports shall be reviewed by the City's independent auditors as part of the City's annual audit and the result of this review shall be reported to the City Council.

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2. ANNUAL REPORT

Within a reasonable time after the end of the fiscal year, the Executive Director of Finance shall present an annual report on the investment program activity. The annual report shall include 12-month performance information and shall suggest improvements that might be made in the investment program. The annual report may be a component of the fourth quarter investment report.

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3. NOTIFICATION OF INVESTMENT CHANGES

It shall be the duty of the Executive Director of Finance to notify the City Council of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this Policy or not.

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4. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a competitive market rate of return throughout budgetary and economic cycles that is consistent with risk limitations and cash flow needs of the City. Given this strategy, the basis used by Investment Officers to determine whether market yields are being achieved shall be the average return on 90-day or 180-day U.S. Treasury Bills. "Weighted average yield to maturity" shall be the portfolio performance measurement standard.

**G. INVESTMENT TYPES**

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1. ACTIVE PORTFOLIO MANAGEMENT

The City intends to pursue an active vs. a passive portfolio management philosophy. That is investments may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

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2. ELIGIBLE INVESTMENTS

Financial assets of the City may be invested in:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Financial institution deposits with a state or national bank, savings and loan association, or credit union, that meets the requirements of the Act and are fully insured or collateralized in accordance with Section X. SAFEKEEPING AND CUSTODY.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
6. A fully collateralized repurchase agreement, as defined in the Act, if it:
  - a.) has a defined termination date;
  - b.) is secured by cash and obligations described by Section 2256.009 (a) (1) of the Act; and
  - c.) requires the securities being purchased by the City to be pledged to the City, held in the City's account, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
  - d.) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

7. Eligible investment pools if the City Council by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Act. Investment pools must be continuously rated Amama or the equivalent by at least one nationally recognized rating service.
8. Money market mutual funds continuously rated agama or the equivalent that are registered with and regulated by the Securities and Exchange Commission, whose investment objectives include seeking to maintain a stable net asset value of \$1.0000 per share. The money market mutual funds must provide the City with a prospectus and other information required by federal law. The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund.

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3. CREDIT RATINGS

Not less than quarterly, the Investment Officers will monitor the current credit rating of each held investment that has an Act required minimum rating. Any investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. .

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4. LENGTH OF INVESTMENTS

The City shall invest in instruments with scheduled maturity not to exceed the limitation of the specific investment strategy at the time of purchase.

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5. DIVERSIFICATION

It shall be the policy of the City to diversify the investment portfolio.

Diversification strategies shall be determined and revised periodically by the Investment Committee. In establishing specific diversification strategies, the following general constraints shall apply:

1. Limiting investments to avoid over concentration in investments from a specific issuer or business sector, where appropriate,
2. Limiting investments with higher credit risk,
3. Investing in instruments with varying maturities and in accordance with the City's cash flow projections, and
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, financial institution deposits, money market mutual funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

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## 6. PROHIBITED INVESTMENTS

The following investment instruments are strictly prohibited:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized Mortgage Obligations with a stated final maturity greater than ten years;
4. Collateralized Mortgage Obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;
5. The City will not invest in derivatives. For the purposes of this Policy, the definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market.

## H. SELECTION OF BANKS AND BROKER/DEALERS

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### 1. SELECTION PROCESS

Primary Depositories shall be selected through the City's banking services procurement process, which shall include a formal request for application



(RFA) as per State legislation and the City’s purchasing policy. In selecting primary depositories, the credit worthiness of institutions shall be considered, and the Executive Director of Finance shall conduct a comprehensive review of prospective depositories’ credit characteristics and financial history.

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2. INSURABILITY

Financial institutions seeking to establish eligibility for the City's funds shall submit financial statements, evidence of Federal insurance and other information as required by the Executive Director of Finance.

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3. COLLATERALIZED DEPOSITS

All financial institution deposits shall be insured or collateralized in compliance with applicable State law. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards City deposits. Financial institutions serving as the City’s depositories will be required to sign a depository agreement with the City. The collateralized deposit portion of the agreement shall define the City’s rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The agreement must be in writing;
- The agreement must be executed by the depository and the City contemporaneously with the acquisition of the asset;
- The agreement must be approved by the Board of Directors or designated committee of the depository and a copy of the meeting minutes must be delivered to the City; and
- The agreement must be part of the depository’s “official record” continuously since its execution.

The Killeen Economic Development Corporation, where applicable, shall also comply with these requirements.

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4. BROKER/DEALERS AND APPROVED LIST

All broker/dealers who desire to become qualified for investment transactions with the City must be recommended by the Executive Director

of Finance and approved by the Investment Committee. Applications will be reviewed on a periodic basis and submitted to the Investment Committee for approval. The Executive Director of Finance will maintain a list of broker/dealers authorized to provide investment services to the City. The authorized list of broker/dealers will, at a minimum, be reviewed and approved on an annual basis, and any broker/dealers who fail to meet the standards of this Policy shall be removed from the list. All broker/dealers who desire to become qualified for investment transactions must supply the following, as appropriate:

1. Proof of registration with the Texas State Securities Board.
2. Proof of Financial Industry Regulatory Authority (FINRA) membership.
3. Audited financial statements.

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5. COMPETITIVE ENVIRONMENT

All trades, purchases and sales, executed for the City, excluding transactions with money market accounts, money market mutual funds and local government investment pools which are deemed to be made at prevailing market rates, will be done through a documented competitive solicitation process. Competitive quotes must be solicited from at least three qualifying institutions for any investment transaction. For those situations where it may be impractical or unreasonable to receive three quotes for a transaction due to rapidly changing market conditions, initial security offering, or limited secondary market availability, documentation of a competitive market survey of comparable investments or an explanation of the specific circumstance must be included with the transaction record.

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6. INVESTMENT POLICY

In accordance with the Act, a written copy of this Investment Policy shall be presented to any person seeking to sell to the City an authorized investment or act as Investment Advisor. A qualified representative of a local government investment pool or discretionary investment management firm (e.g. business organization) seeking to sell an authorized investment or perform investment advisory services shall execute a written instrument substantially to the effect that the qualified representative has:

1. Received and thoroughly reviewed the Investment Policy; and

2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization in accordance with the Act.

## I. SAFEKEEPING AND CUSTODY

The City shall contract with a third party for the safekeeping and custody of securities either owned by the City as a part of its investment portfolio or held as collateral to secure financial institution deposits, share certificates or repurchase agreements. The securities will be held in an account in the name of the City as evidenced by safekeeping or pledge receipts of the institution with which the securities are deposited.

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### 1. INSURANCE OR COLLATERAL

All deposits of City funds with financial institutions shall be secured by pledged collateral in accordance with Chapter 2257 of the Texas Government Code. Securities pledged as collateral for deposits must maintain a market value equal to no less than 102% of the uninsured deposits, including accrued interest. Federal Home Loan Bank Letters of Credit pledged as collateral must be equal to no less than 100% of the uninsured deposits, including accrued interest. Federal Home Loan Bank Letters of Credit pledged for certificates of deposit must expire at least two business days beyond the maturity date of the certificate of deposit. If rolling letters of credit are utilized, advance notice prior to any expiration must be provided along with a letter of credit extension. Any letter of credit extension issued to cover the expiration of an investment should expire no less than two business days beyond the final maturity date of the investment. Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed at least monthly to assure the market value equals or exceeds the collateralization requirement for the related bank balances.

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### 2. PLEDGED COLLATERAL AGREEMENTS

All custodial arrangements shall be in accordance with a Custodial Agreement approved by the Investment Officers, which clearly defines the procedural steps for gaining access to the collateral should the City determine that the City's funds are in jeopardy. The custodian institution, or Custodian, shall be the Federal Reserve Bank or an institution not a

branch of the firm pledging the collateral. A Depository Agreement shall include the signatures of the City and the firm pledging the collateral, and may include the Custodian. The Custodial and Depository Agreements shall address acceptance, substitution, release and valuation of collateral.

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3. COLLATERAL DEFINED

The City shall accept only the following as collateral:

1. Cash.
2. FDIC and NCUSIF insurance coverage.
3. A bond, certificate of indebtedness, or note of the United States or its agencies and instrumentalities, or other evidence of indebtedness that is guaranteed as to the principal and interest by the United States or its agencies and instrumentalities.
4. Obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or its agencies and instrumentalities.
5. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than “A” or its equivalent) by a nationally recognized rating agency, with a remaining maturity of ten (10) years or less.

The use of a letter of credit issued to the City by a Federal Home Loan Bank may be considered by the City to meet the required bank depository collateral requirements.

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4. SUBJECT TO AUDIT

All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

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5. DELIVERY VS. PAYMENT

All security transactions shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the security was received by the City's Safekeeping Agent or Trustee. The security shall be held in the account of the City. The Trustee's or Safekeeping Agent's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

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6. STANDARDS OF OPERATION

The Executive Director of Finance shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this Investment Policy.

## J. INTERNAL CONTROLS

### 1. INTERNAL CONTROLS

The Executive Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, as part of the annual audit, the Executive Director of Finance shall establish a process for independent review by the external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping - Securities purchased from any bank or broker/dealer, including appropriate collateral shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of telephone transactions for investments and

wire transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax or email if on letterhead and the custodial safekeeping institution has a list of authorized signatures.

## K. INVESTMENT STRATEGIES

### 1. INVESTMENT STRATEGIES

In accordance with the Act, a separate written investment strategy will be developed for each of the fund-types under the City's control. Each investment strategy must describe the investment objectives for the particular fund-type using the following priorities of importance:

1. Understanding of the suitability of the investment to the financial requirements of the City;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

### 2. FUND STRATEGIES

The investment strategies to be employed by the City are:

#### A) OPERATING FUNDS

Suitability - Any investment eligible in the Investment Policy is suitable for Operating Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of each fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the portfolio.

Liquidity - Operating Funds require the greatest short-term liquidity of any of the fund-types. Short-term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a tenth of a percentage point will define an efficient secondary market.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of a rolling three-month Treasury Bill portfolio will be the minimum yield objective.

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B) **DEBT SERVICE FUNDS**

Suitability - Any investment eligible in the Investment Policy is suitable for Debt Service Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

Liquidity - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Short-term financial institution deposits, investments pools and money market mutual funds may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar structured investment, may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

Marketability - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

Diversification - Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are anticipated to decrease over time, the City is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide an advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of a rolling three-month Treasury Bill portfolio shall be the minimum yield objective.

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C) SPECIAL REVENUE FUNDS

Suitability - Any investment eligible in the Investment Policy is suitable for Special Revenue Funds.

Safety of Principal - All investments will be of high quality with no perceived default risk. Market fluctuations will occur. However, by managing Special Revenue Funds to balance the short-term and long-term anticipated cash flow requirements of the specific revenue/expense plan, the market risk of the Fund’s portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated cash flow requirement or two years.

Liquidity - A portion of the Special Revenue Funds are reasonably predictable. However, unanticipated needs or emergencies may arise. Selecting investment maturities that provide greater cash flow than the anticipated needs will reduce the liquidity risk of unanticipated expenditures. Short-term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a tenth of a percentage point will define an efficient secondary market.



Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio structures is the desired objective. The yield of a rolling three-month Treasury Bill portfolio will be the minimum yield objective.

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D) CAPITAL PROJECT FUNDS

Suitability - Any investment eligible in the Investment Policy is suitable for Capital Project Funds.

Safety of Principal - All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Project Funds to not exceed the anticipated expenditure schedule the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule, the IRS temporary period for tax-exempt bond proceeds, or five years.

Liquidity - Most capital improvements programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds will provide readily available funds generally equal to at least one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar investment structure, may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a tenth of a percentage point will define an efficient secondary market.

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates

exceed the applicable cost of borrowing, the City is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy's risk constraints. The yield of a rolling six-month Treasury Bill portfolio will be the minimum yield objective.

## L. POLICY

### 1. EXEMPTION

The City is not required to liquidate investments that were authorized investments at the time of purchase. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

### 2. AMENDMENT

The City Council shall review the Investment Policy, and incorporated investment strategies, annually. Amendments must be approved by the Investment Committee and adopted by the City Council. The City Council shall annually adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed and approved the Investment Policy and investment strategies, even if there are no changes from the previous document.

**Sample Investment Policy Certification**

This certification is executed on behalf of the **City of Killeen** (the Investor) and \_\_\_\_\_ (the Business Organization) pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the Act) in connection with investment transactions conducted between the Investor and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the Investor and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the Investor that are not authorized by the Investor's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Investor's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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\_\_\_\_\_  
(Firm)

Qualified Representative of the Business Organization

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Title)

\_\_\_\_\_  
(Date)



## **XXIII. MANAGEMENT OF MONETARY DONATIONS**

### **A. PURPOSE**

The purpose of this policy is to establish a process for the City of Killeen to accept monetary donations through utility bills and a procedure for distribution of those funds, as well as to establish eligibility for citizens to receive disbursements in limited circumstances.

### **B. DONATION PROCESSES**

Except as provided in this policy, the City will accept monetary donations only. The City may provide an option on utility bills that allows utility customers to make voluntary contributions to the programs listed in this policy when paying their city utility bills. Donations may also be accepted in person by the Finance Department or by the respective departments as provided below. Donations will be collected throughout the year.

Offers of donations other than money or goods and services for Animal Services Unit (ASU) shall be forwarded by the Department Head to the Assistant City Manager to determine whether the City will benefit from the donation.

Programs or departments that accept donations other than those listed in this policy shall deposit donated money into the appropriate account established by the Finance Department. Any offers of non-monetary donations shall be forwarded by the Department Head to the Assistant City Manager to determine whether the City will benefit from the donation.

### **C. SENIOR CITIZEN UTILITY BILL ASSISTANCE PROGRAM**

#### **1. PURPOSE**

The purpose of this policy is to establish a process for the city to accept monetary donations and a procedure for distribution of those funds, as well as to establish eligibility criteria for senior citizens to receive financial assistance on their City of Killeen utility bills.

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2. APPLICATION AND ELIGIBILITY

In order for a senior citizen to be considered, a written application must be submitted to the Executive Director of Finance or designee.

Eligible senior citizens must receive a utility bill from the City of Killeen and be 60 years of age at the time of application. An eligible applicant may remain on the program for a period of six months, and may reapply after being off of the program for six months.

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3. PUBLIC PURPOSE

The public purpose served by this program is to reduce the impact on community resources by providing assistance to senior citizens who are unable to pay their utility bills.

**D. SUMMER YOUTH PROGRAMS**

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1. PURPOSE

The purpose of this policy is to establish a process for the City of Killeen to accept monetary donations and a procedure for distribution of those funds, as well as to establish eligibility criteria for youth and their families.

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2. DONATION ACCEPTANCE

Acceptance of monetary donations and management of the account will be by the Executive Director of Recreation or designee.

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3. APPLICATION AND ELIGIBILITY

In order for a child to be considered, a parent or guardian must submit a written application to the Executive Director of Recreation or designee. Applications will be available beginning February 1 for the following summer and will be accepted through April 15. Factors considered for eligibility will include the number of people in the household and household income. To be eligible, household income must be at or below 80% of the area's median household income.

Eligible children must live in the City of Killeen and be ages 4 to 16. Assistance will only be provided for enrollment in summer programs offered through the Recreation Department.

After a determination of eligibility, City staff will contact the parent/guardian to coordinate enrollment in summer programs. Each child may receive up to \$100 with a maximum of \$200 per family per summer. Funds will be disseminated on a first come, first served basis until depleted, and no funds will be given directly to participants.

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4. PUBLIC PURPOSE

The public purpose served by this program is to reduce the impact on community resources by providing services to children who are unable to attend City fee-based summer programs.

E. ANIMAL SERVICES UNIT (ASU)

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1. PURPOSE

The purpose of this policy is to establish a process for the City of Killeen to accept monetary donations and a procedure for distribution of those funds.

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2. DONATION ACCEPTANCE

Management of the account will be by the Executive Director of Recreation or designee. Monetary donations will be accepted in person by the ASU Manager or designee. ASU may also accept donations of goods or services for the care of the animals in its care. Donations may include but are not limited to: food, blankets, towels and detergent.

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3. USE OF FUNDS

Funds will be used primarily to provide spay and neuter services for animals in the care of ASU, but may be reallocated based upon need, as determined by the City Manager or designee. The funds in the ASU donation account are to be used exclusively for the benefit of the animals in ASU care.

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4. PUBLIC PURPOSE

The public purpose served by this policy is to reduce the impact on community resources by providing spay and neuter services for animals in the care of ASU.

## F. DISBURSEMENT OF FUNDS

Availability of funds for the programs in Sections C-E will be based upon contributions to each donation account, unless otherwise funded through the annual budget.



## XXIV. GLOSSARY

**Accrual Basis of Accounting** – A basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows. For example, in accrual accounting, revenue that was earned on April 1, but for which payment was not received until July 10, is recorded as revenue on April 1 regardless of the timing of when the payment is received.

**Business Plan** - A department-level plan. In this plan, departments outline each division's service areas and associated key performance indicators and priority initiatives for each. This document is meant to serve as a high-level annual performance plan, in which measures are periodically updated to facilitate continuous observation, trend analysis, and improvement of department activities and services.

**Capital Equipment** – The purchase of an individual asset, such as equipment, vehicles, tools or similar items with a cost of \$5,000 or more and that has a useful life exceeding one-year.

**Capital Improvement Plan (CIP)** – A plan that describes the capital projects and associated funding sources the City intends to undertake in the current fiscal year plus four successive fiscal years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.

**Capital Improvement Project** – A capital project for the new construction or expansion of infrastructure or facilities.

**Capital Maintenance Project** – A capital project for the remodel, reconstruction, or rehabilitation of infrastructure or facilities.

**Capital Project** – A non-recurring expenditure that exceeds \$100,000 and has a useful life exceeding one-year.

**Capital Projects Fund** – A governmental fund established to account for resources used for the acquisition of large capital improvements and non-recurring expenditures other than those acquisitions accounted for in proprietary or trust funds.

**Cash Flow** – The net cash balance at any given point.

**City Manager** – All references to the City Manager are understood to be the City Manager or designee.

**Debt Service** - The cash that is required for a particular time period to cover the repayment of interest and principal on a debt. Debt Service is projected on an annual basis.

**Debt Service Fund** – A fund established to accumulate resources and to account for revenues and expenditures used to repay the principal and interest on debt.

**Deferred Inflows of Resources** – Resources that flow into a fund during the fiscal year, but are related to a future period. Deferred Inflows have a negative effect on net position, similar to liabilities. (Examples include: property taxes levied in the current year to finance the subsequent year's budget.

**Deferred Outflows of Resources** - Resources that flow out of a fund during the fiscal year, but are related to a future period. Deferred Outflows have a positive effect on net position, similar to assets. (Examples include: resources provided to a grantee before the grantee has met related time requirements, but after all other eligibility criteria have been met).

**Executive Director of Finance** – All references to the Executive Director of Finance are understood to be the Executive Director of Finance or designee.

**Expenditure** – Refers to the value of goods and services *received* during a period of time, regardless of when they are *used* (accrual basis of accounting) or *paid* for (cash basis of accounting).

**Expense** - Refers to the value of goods and services *used* during a period of time, regardless of when they were *received* (modified accrual basis of accounting) or *paid* for (cash basis of accounting).

**Fiduciary Fund** – Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party that cannot be used to support the government's own programs.

**Employee Benefit Trust Fund** - Employee benefit trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

**Finance Department** – The Finance Department is the department responsible for the corporate financial operations of the City.

**Fund Accounting** – 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.

**Fund Balance** – Fund balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Fund Balance is broken up into five categories:

**Non-spendable Fund Balance** – Includes amounts that are not in a spendable form or are required to be maintained intact. Examples are consumable inventories.

**Restricted Fund Balance** – Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and donations.

**Committed Fund Balance** – Includes amounts that can be used only for the specific purposes determined by a formal action (for example, legislation, resolution, and ordinance) of the City Council. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

**Assigned Fund Balance** – The portion of the fund balance of a governmental fund that represents resources set aside (earmarked) by the government for a particular purpose. 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.

**Unassigned Fund Balance** - Represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund. Unassigned amounts are technically available for any purpose.

**Governmental Fund** – Governmental funds are used to account for the government's general government activities primarily supported by taxes, grants, and similar revenue sources. There are five different types of governmental funds including: General Fund, Special Revenue Funds, General Debt Service Fund, Capital Project Funds, and Permanent Funds. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**General Fund** - The main operating fund which is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund finances many of the basic municipal functions, such as general administration and public safety.

**Special Revenue Funds** – Governmental fund type used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects and exclusive of resources held in trust for individuals, private organizations, or other governments.

**Capital Projects Funds** - Governmental fund type used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**Debt Service Funds** - Governmental fund type used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**Internal Controls** – The plan of organization and all of the coordinated methods and measures adopted within the City to safeguard assets, check the accuracy and reliability of its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

**Accounting Controls** – The plan of organization and all the methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and reliability of financial records.

**Administrative Controls** – The plan of organization and all the methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

**Long-Term Financial plan (LTFP)** - A Long-Term Financial Plan includes an analysis of the financial and economic environment, long-term forecasts, debt analysis, and financial strategies.

**Modified Accrual Basis of Accounting** – Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all material revenues are considered to be susceptible to accrual. Ad valorem, sales, franchise, and other tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available. 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, except for principal and interest on general long-term debt, which are recorded when due. Compensated absences, claims, and judgments are recorded when the obligations are expected to be paid from currently available financial resources.

**Net Position** – Net Position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a proprietary fund.

**Non-Recurring Item** – An expenditure that has not occurred in the previous two years and is not expected to occur in the following year.

**Operating Expenditures (Governmental Funds)** - An expenditure incurred in carrying out the City's day-to-day activities. Operating Expenditures include such things as payroll, employee benefits and pension contributions, transportation and travel.

**Operating Expenses (Proprietary Funds)** - An expense incurred in carrying out the City's day-to-day activities. Operating Expenses include such things as payroll, employee benefits and pension contributions, transportation and travel, amortization and depreciation. Notwithstanding the foregoing, with respect to a City Enterprise for which obligations, secured in whole or in part by the revenues of such Enterprise (such as the City's Water and Sewer System), have been issued or incurred, Operating Expenses shall be determined in accordance with State law and terms of the ordinances pursuant to which such obligations were issued or incurred.

**Pay-As-You-Go-Financing** - The use of currently available cash resources to pay for capital investment. It is an alternative to debt financing.

**Pooled Cash** – The sum of unrestricted cash and investments of several accounting funds that are consolidated for cash management and investment purposes. Investment income or expenditure is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

**Program** - A set of activities, operations, or organizational units designed and directed to accomplish specific service outcomes or objectives for a defined customer.

**Proprietary Fund** – A class of fund types that account for a local government's businesslike activities. Proprietary funds are of two types: enterprise funds and internal service funds. Both use the accrual basis of accounting and receive their revenues from charges to users. (Enterprise Fund examples: Water and Sewer Fund, and Drainage Utility Fund; Internal Service Fund examples: Fleet Maintenance Fund, Information Systems Fund).

**Enterprise Fund** - Enterprise funds are used to account for those activities that are business-like in nature, and include the Water & Sewer, Drainage, Solid Waste, and Aviation funds. Enterprise 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. These funds are supported largely by user charges.

**Internal Service Fund** - Proprietary fund type used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

**Reserve (Governmental Funds)** - Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities. See associated Reserve Policy for specific details.

**Reserve (Proprietary Funds)** - Reserve refers only to the portion of Working Capital that is intended to provide stability and respond to unplanned events or opportunities. See associated Reserve Policy for specific details.

**Unrestricted Net Position** - The portion of a fund's net position that is not restricted for a specific purpose.

**Working Capital** - An accounting term defined as current assets less current liabilities in a proprietary fund. Working Capital is used to express the Reserves available in proprietary funds for use.