

FINANCIAL POLICIES

INTRODUCTION

The City of McKinney, Texas 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 and the City of McKinney City Charter. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

BASIS OF ACCOUNTING AND BUDGETING

1. The City's finances shall be accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board.
 - a) The accounts of the City are organized and operated on the basis of funds and account groups. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. Governmental funds are used to account for the government's general government activities and include the General, Special Revenue, Debt Service and Capital Project funds.
 - b) Governmental Fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Substantially all revenues are considered to be susceptible to accrual. Ad valorem, sales, franchise and tax revenues recorded in the General Fund, ad valorem tax revenues recorded in the Debt Service Fund and hotel/motel tax revenues in the Special Revenue Hotel/Motel 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. 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, and compensated absences, which are recorded when payable from currently available financial resources.
 - c) The City utilizes encumbrance accounting for its Governmental Fund types, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.
 - d) The City's Proprietary Fund types are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, expenses are recorded when earned, and expenses are recorded at the time liabilities are incurred.
 - e) The City's annual budgets shall be prepared and adopted on a basis consistent with generally accepted accounting principles for all governmental and proprietary funds except the capital projects funds, which adopt project-length budgets. Depreciation of fixed assets is recognized in proprietary fund budgets. All annual appropriations lapse at fiscal year-end. Under the City's budgetary process, outstanding encumbrances are reported as reservations of fund balances and do not constitute

expenditures or liabilities since the commitments will be re-appropriated and honored the subsequent fiscal year.

ANNUAL BUDGET (*CHARTER REQUIREMENTS)

- 1*. The fiscal year of the City shall begin on the first day of October each year and shall end with the thirtieth day of September of each year.
- 2*. On or before the fifteenth day of August of each year, the City Manager shall submit to the City Council a budget of the revenues of the City and the expense of conducting the affairs thereof for the ensuing fiscal year. This estimate shall be compiled from detailed information obtained from the several departments, divisions, and offices of the City. The information from the various departments shall be furnished to the City Manager by the Departments under his control and those not under his control, not later than the first of August. The classification of the estimate shall be as nearly uniform as possible for the main functional divisions of such departments, divisions and offices and shall give the following information:
 - An itemized estimate of the expense of conducting each department, division, office and commission.
 - Comparison of such estimates with the corresponding items of expenditure of the last two (2) fiscal years, and with the expenditures of the current fiscal year plus an estimate of expenditures necessary to complete the current fiscal year.
 - Reason for proposed increases or decreases of such items of expenditure compared with the current fiscal year.
 - Items of payroll increases as either additional pay to present employees or pay for more employees.
 - A statement from the Chief Financial Officer of the total probable income of the City from taxes for the period covered by the estimate.
 - An itemization of all anticipated revenue from sources other than the tax levy.
 - The amount required for interest on the City's debt, for sinking fund and for maturing serial bonds.
 - The total amount of outstanding City debts, with a schedule of maturities on bond issues.
 - Such other information as may be required by the City Council.
 - The proposed budget shall contain a suggested tax rate to be levied to support the expenditures proposed. The City Manager shall also have the City Attorney prepare an appropriation ordinance and transmit it to the City Council with the budget.
- 3*. Upon receipt of the City Manager's estimate, the City Council shall pass the appropriation ordinance in accordance with state law, using the City Manager's estimate as a basis. Provision shall be made for public hearings upon the appropriation ordinance before the City Council, sitting as a committee of the whole. The City Council shall not pass the appropriation ordinance until at least ten (10) days after its publication, not before the first Monday in September of each year. Upon passage of the appropriation ordinance by the City council, it shall, before becoming effective, be published once in the official newspaper of the City.
- 4*. Following final adoption of the appropriation ordinance approving the budget, the City Council shall pass an ordinance levying the taxes for the current year.
- 5*. Upon the written recommendation of the City Manager, the City Council may at any time transfer an unencumbered balance of an appropriation made for the use of one department, division or purpose to any other department, division or purpose; provided, however, that no such transfer shall be made of revenue or earnings of the water department, sewer department or any other City-owned utility in excess of ten (10) percent.

- 6*. If at any time the total accruing revenue of the City shall be in excess of the total estimated income thereof as set forth in the annual budget estimate, the City Council may from time to time appropriate such excess to such uses as will not conflict with any uses for which such revenues specifically accrued.
- 7*. No money shall be drawn from the City Depository, nor shall any obligation for the expenditure of money be incurred, except in pursuance of appropriations made by the City Council. At the close of each fiscal year, the unencumbered balance of each appropriation shall revert to the fund from which it was appropriated and shall be subject to future appropriations, but appropriations may be made in furtherance of improvements or other objects of work of the City which will not be completed within the current year.

REVENUES

1. The City will strive to obtain franchise agreements that incorporate a franchise or rental fee with all public utilities (including municipally owned utilities). The fee structure will be similar to other cities in the area and allowed by the Public Utility Commission.
2. The City will pursue an aggressive policy of collecting all moneys due to the City.
3. The applied tax rate will not exceed the effective tax rate by 3% and in unusual circumstances; the applied rate will not exceed the effective rate by 8%.
4. The City will maintain the percentage of the tax rate allocated to the general fund at a minimum of 65% level. Conversely, the allocation of the tax rate for debt purposes will be no more than 35%.
5. The City will continue an aggressive program to reduce the level of delinquent taxes. The minimum collection rate objective is 98.5%.
6. The City will strive to maintain total delinquent taxes outstanding at an aggregate level not to exceed 10% of the current tax levy.
7. Tax exemptions presently allowed by the City will be monitored. Additional residential or non-profit property exemptions must be approved by the City Council.

EXPENDITURES

1. All expenses of the City shall be made in accordance with the adopted annual budget or as legally amended. The City Council may amend the budget by passing a budget appropriation ordinance.
2. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
3. The following represents the City's budget amendment policy delineating responsibility and authority for the amendment process. Transfers between expenditure accounts in one department may occur with the approval of the Chief Financial Officer . Transfers between operating departments may occur with the approval of the City Manager. Transfers between funds must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.

CAPITAL IMPROVEMENT PROGRAM

1. The City shall establish and maintain a Capital Project Fund to be used to renovate, repair and replace fixed assets of the City, including public buildings, streets, storm sewers, park facilities and water & wastewater improvements. The Capital Project Fund shall be funded with contributions made to the City, nonrecurring revenues of the City and other revenues detailed in the budget submitted to the City Council by the City Manager; as such budget may from time to time be amended.

PURCHASING POLICY

1. The City will ensure that goods and services needed are obtained by using accepted purchasing practices. It will also meet legally mandated federal, state and local statutes, ordinances and codes while providing for a uniform, timely and economical means of purchasing.

DEBTS

1. The City will manage the length of maturity of its long-term debt in order to lower net interest cost and to maintain future flexibility by paying off debt earlier. The target shall be 20 years.

INVESTMENT POLICY

1. The City will invest public funds in a manner which will provide the optimum investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to the statutes, rules and regulations governing the investment of public funds. The policy and strategy shall be reviewed by the Investment Committee and the City Council annually. Any modifications will be formally approved by the City Council. This investment policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256 as amended by House Bill 2226.

FUND BALANCES

1. The City should set aside resources during years of growth to fund a reserve for years of decline and/or to fund capital out of current funds for projects that would have otherwise been funded by debt financing.
2. The City will maintain a minimum fund balance reserve equal to three months of the total operating expenses of the General Fund.
3. The City will maintain a reserve of cash and investments in the Water and Wastewater Fund equal to 90 days of the total operating expenses.
4. The City will increase the cash and investments balance in all other enterprise funds to reach a level of at least 60 days of the total operating expenses.
5. The City will maintain a reserve for insurance/risk management in the General Fund at least equal to the amount as determined by actuarial study.
6. The City maintains a prudent level of financial resources in each fund that are monitored and managed according to the needs of the individual funds. The Fund Balance classifications used will be as follows:
 - *Nonspendable* – not in a spendable form such as prepaid items or legally or contractually required to be maintained intact such as an endowment.
 - *Restricted* – can be spent only on the specific purposes stipulated by law or by the external providers of those resources.
 - *Committed* – has self-imposed limitations set in place prior to the end of the fiscal period. These amounts can be used only for the specific purposes determined and approved by formal action of the City Council, which is the highest level of decision-making authority for the city. The same level of formal action is required to remove the constraint.
 - *Assigned* – represents an intended use established by the City Council or by their designated body or official.
 - *Unassigned* – represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

FINANCIAL REPORTING

1. Following the conclusion of the fiscal year, the Chief Financial Officer shall cause to be prepared a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting and financial reporting principles established by the Governmental Accounting Standards Board. The document

shall also satisfy all criteria of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program.

2. The CAFR shall show the status of the City's finances on the basis of generally accepted accounting principles (GAAP). The CAFR shall show fund revenues and expenditures on both a GAAP basis and budget basis for comparison purposes.
3. Included as part of the CAFR shall be the results of the annual audit prepared by independent certified public accountants designated by the City Council.
4. The Chief Financial Officer shall submit to the Council a monthly statement of all receipts and disbursements in sufficient detail to show the exact financial condition of the City.