BUDGET GLOSSARY

ACCOUNTS PAYABLE: A liability account that shows how much the government owes to private persons or organizations for goods and services purchased on credit (but not including amounts due to other funds of the same government or to other governments).

ACCOUNTS RECEIVABLE: An asset account that shows amounts owing to the government by private person or organizations for goods or services purchased on credit.

ACCRUAL ACCOUNTING: A basis of accounting in which transactions are recognized at the time they are incurred, as opposed to when cash is received or spent.

ACTIVITY ENHANCEMENT: An expenditure/expense not in the ordinary or normal process of operations. Usually identified as a capital outlay but can include any new cost added to the budget. Activity enhancements are segregated from the normal operating budget in an effort to identify and evaluate for approval as an addition to the operations.

AD VALOREM: Latin for "according to value". Refers to the taxes assessed against real (land and buildings) and personal (equipment and furniture) property.

AMORTIZATION: Payment of principal plus interest in installments.

APPROPRIATION: A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended.

APPROPRIATION ORDINANCE: Order by which appropriations are given legal effect. It is the method by which the expenditure side of the annual operating budget is enacted into law by the legislative body.

ARBITRAGE: In government finance, the reinvestment of the proceeds of tax exempt securities in materially higher yielding taxable securities.

ASAP OFFICER: Alcohol and Substance Abuse Program Officer.

ASSESSED VALUATION: A valuation set upon real estate and certain personal property by the Denton Central Appraisal District as a basis for levying property taxes.

AUTHORIZED POSITION SCHEDULE: A chart which displays and enumerates position classifications within a department.

BALANCE SHEET: A statement, showing the assets, liability and equities of an entity at a particular time in conformity with Generally Accepted Accounting Principles (GAAP).

BALANCED BUDGET: Annual financial plan in which expenses do not exceed

revenues.
BOD: Acronym for biochemical oxygen demand. A measure of the pollution present in water, obtained by measuring the amount of oxygen absorbed from the water by the microorganisms present in it.

BOND: A written promise to pay a sum of money on specific dates at a specified interest rate. The repayment of the principal and interest are detailed in a bond ordinance.

BOND ORDINANCE: An ordinance approved by the City Council authorizing a bond issue.

BUDGET: An annual plan of operations that matches proposed expenditures and the estimated means of financing them. The approved budget is authorized by ordinance and specifies the legal spending limits for the fiscal year.

BUDGET ADJUSTMENT: A request submitted for additional or reduction of funding in departmental budgets for new or existing programs or services.

BUDGET BASIS: The accounting system used in tracking the budget execution is GAAP (Generally Accepted Accounting Principles).

BUDGET CALENDAR: The schedule of key dates, which the City follows in the preparation and adoption of the budget.

BUDGET DOCUMENT: The official written statement prepared by the management staff and adopted by the City Council to serve as a comprehensive financial plan of operations for the fiscal year.

BUDGET MESSAGE: The opening section of the budget from the City Manager which provides the City Council and the public with a summary of the most important aspects of the budget.

BUDGET ORDINANCE: The official enactment, by the City Council to legally authorize City staff to obligate and expend the resources of the City.

CAPITAL ASSETS: Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible assets that are used in operations, and that have initial useful lives extending beyond a single reporting period.

CAPITAL OUTLAYS: Expenditures, which result in the acquisition of or addition to capital assets.

CAPITAL PROJECTS FUND: A fund created to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.

CAFR: Comprehensive Annual Financial Reports.

CDC: Community Development Corporation (also known as 4B Corporation) is created by State Statute. Council appoints Board members and approves the Board's budget. Revenues are funded by half-cent sales taxes to promote

Economic Development.

CERTIFICATES OF OBLIGATION: Legal debt instruments used to finance capital improvement projects. Certificates of obligation are backed by the full faith and credit of the governmental entity and are fully payable from a property tax levy. Certificates of obligation differ from general obligation debt in that they are approved by the City Council and not voter approved.

CITY CHARTER: The document of a home rule City similar to a constitution, which establishes the City's government structure and provides for the distribution of powers and duties among the various branches of government.

CITY COUNCIL: The Mayor and six (6) Council members collectively acting as the legislative and policymaking body of the City.

CONTINGENCY: A budgetary reserve set aside for emergencies or unforeseen expenditures.

CONTRACTUAL SERVICES: The costs related to services performed for the City by individuals, business or utilities.

COST: The amount of money or other consideration exchanged for property or services. Costs can be incurred before cash outlay; ultimately, money or other consideration must be given in exchange.

COST CENTER: An organizational unit that can be a department, division or section. This is the lowest budget unit that has individual expenditure line items.

CSR: Community Service Resource Officer.

CURRENT ASSETS: Available cash or other assets that can be made readily available to finance current operations or pay current liabilities. Those assets which will be used up or converted into cash within one year. Some examples are temporary investments and receivables which will be collected within one year.

CURRENT LIABILITIES: Debt or other legal obligations arising out of transactions in the past which must be liquidated, renewed, or refunded within one year.

DEBT SERVICE FUND: A fund established to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

DEFICIT: The excess of an entity's liabilities over its assets. The excess of expenditures over revenues during an accounting period.

DELINQUENT TAXES: Taxes remaining unpaid on or after the date on which a penalty for nonpayment is attached.

DEPARTMENT: A major administrative organizational unit of the City, which indicates overall management responsibility for one or more activities.

DEPRECIATION: Decrease in value of an item over time or usage.

DWU: Dallas Water Utilities

EDC: Economic Development Corporation (also known as 4A Corporation) is created by State Statue. Council appoints Board members and approves the Board's budget. Revenues are funded by half-cent sales taxes to promote economic development.

EMS: Emergency Management System.

ENCUMBRANCES: Commitments related to unperformed contracts for goods and services used in budgeting. Encumbrances are not expenditures or liabilities, but represent the amount of expenditures ultimately to result upon completion of contracts.

ENTERPRISE FUND: A fund established to account for operations of the water and sewer system. It is operated in a manner similar to private business enterprises where the intent is cost recovery primarily through user charges.

EPA: Acronym for Environmental Protection Agency.

EXPENDITURES: A decrease in the net financial resources of the City due to the acquisition of goods and services.

EXPENSES: Decreases in net total assets. Expenses represent the total cost of operations during a period regardless of the timing of related expenditures.

FISCAL YEAR: A 12-month period to which the annual operating budget applies. The City of The Colony has established October 1 through September 30 as its fiscal year.

FRANCHISE: A special privilege granted by a government permitting the continuing use of public property, such as city streets, and usually involving the elements of monopoly and regulation.

FTE: Acronym for full time equivalent, a measurement of staffing. One FTE is a 40 hours per week position. A part-time position working 20 hours per week or a temporary full time position working six months would be a ½ FTE.

FUND: An independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and other resources together with all liabilities, obligations, reserves, and equities which are segregated for the purpose of maintaining specific activities or accomplishing certain objectives.

FUND BALANCE: The excess of assets over liabilities. For budgeting purposes, only that portion of fund balance that will be available for appropriation is used.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP): Uniform minimum standards and guidelines for financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments, regardless of jurisdictional legal provisions and customs, contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria. GAAP provides a standard by which to evaluate financial presentation.

GASB: Acronym for Government Accounting Standards Board, an independent, non-profit agency responsible for the promulgation of accounting and financial reporting procedures for governmental entities.

GENERAL FUND: The fund established to account for those resources devoted to financing the general administration of the City and traditional services provided to citizens. Service activities include fire protection, police protection, public library, parks and recreation, inspections, and public works.

GENERAL OBLIGATION BOND: Bonds that finance a variety of public improvement projects, which pledge the full faith, and credit of the City. This type of bond requires voter approval.

GENERAL OBLIGATION DEBT: Monies owed on interest and principal to holders of the City's general obligation bonds. The debt is supported by revenue provided from real property, which is assessed through the taxation power of the local governmental unit.

GOALS: A statement of broad direction, purpose or intent based on the need of the community.

GRANT - FUNDED PROGRAM: Contributions or gifts of cash or other assets from another government to be used or expended for a specific purpose, activity, or facility.

GOVERNMENTAL FUNDS: Those funds through which most governmental functions typically are financed. The acquisition, use, and financial resources and the related current liabilities are accounted for through governmental funds (General, Special Revenue, Capital Projects, and Debt Service Funds).

HVAC: Heating, ventilation, and air conditioning.

MAINTENANCE: Work that is performed regularly to keep a machine, buildings, or piece of equipment in good condition and working order.

MGD: Million gallons per day.

MODIFIED ACCRUAL BASIS OF ACCOUNTING: Basis of accounting according to which (a) revenues are recognized when available and measurable and (b) expenditures are recognized when fund liability is incurred, if measurable, except for unmatured interest or general long-term debt and certain similar accrued obligations, which should be recognized when due.

OBJECTIVES: Desired output oriented accomplishments, which can be measured and achieved within a given time frame. Achievement of the objective advances the activity and organization toward a corresponding goal.

OPERATING EXPENDITURE: Expenditure on goods or services that is not a capital expenditure.

ORDINANCE: A formal legislative enactment by the governing body of a municipality. If it is not in conflict with any higher form of law, such as a state statute

or constitutional provision, it has the full force and effect of law within the boundaries of the municipality to which it applies. The difference between an ordinance and a resolution is that the latter requires less legal formality and has a lower legal status. Revenue raising measures, such as the imposition of taxes, special assessments and service charges, usually require ordinances.

ORGANIZATIONAL CHART: A graphic display of positions within an organization or department showing the lines of managerial authority.

PERFORMANCE INDICATOR: A specific quantitative measurement of selected work standards to monitor annual departmental activities.

PERFORMANCE MEASURMENT: A commonly used term for service efforts and accomplishments reporting.

PERSONAL SERVICES: The costs associated with compensating employees for their labor.

PRIOR YEAR SURPLUS: Excess revenues over expenditures from prior years. The excess is rolled into the fund balance every year and is available for appropriations.

PROGRAM DESCRIPTIONS: A general statement describing the purpose and major functions of a department.

PROPRIETARY FUND: Operation that operates like a private commercial operation, in which services are financed through user charges and expenditures include the full cost of operations.

PUBLIC HEARING: The portions of open public meetings held to present evidence and provide information on both sides of an issue.

PURCHASE ORDER (PO): A document which authorizes the delivery and charge of specified goods or the rendering of certain services.

REFUNDING BONDS: Bonds issued to retire bonds already sold and outstanding. The refunding bonds may be sold for cash and the outstanding bonds redeemed or retired by the cash proceeds, or the refunding bonds may be exchanged with holders of outstanding bonds.

REIMBURSEMENT: Cash or other assets received as a repayment of the cost for work or services performed or of other expenditures made for or on behalf of another governmental unit, department or fund.

REVENUE: Funds that the government receives as income. Examples are tax payments, fees from specific services, receipts from other governments, court fines, franchise fees, permits, and interest income.

ROW: Acronym for right-of-way.

SCADA: System controls the water pumps to ensure efficient operation of the water distribution system.

SPECIAL REVENUE FUND: A fund used to account for the proceeds of specific revenue sources other than expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

SUPPLIES: A cost category for minor items (individually priced at less than $5,000) required by departments to conduct their operations.

TAXES: Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. It does not include charges for services rendered only to those paying such charges as, for example, water and sewer service charges.

TAX AND REVENUE BONDS: Bonds utilized by the former "The Colony Municipal Utility District" to finance water and wastewater improvement projects. This type of bond is repaid through a combination of an allocation of the tax levy and utility operational earnings.

TAX LEVY: The total revenues to be raised from ad valorem taxes by applying the tax rate to each $100 of property-assessed valuation.

TAX RATE: The dollar rate for taxes levied for each $100 of assessed valuation. The tax rate is currently at $.6975.

TAX ROLL: The official list prepared by the Denton Central Appraisal District showing the amount of taxes levied against each taxpayer or property.

TCEQ: Acronym for Texas Commission on Environmental Quality. A state agency for enforcing federal and state environmental laws.

TRANSFER: The movement of monies from one fund, activity, department, or account to another. This includes budgetary funds or movement of assets.

TXDOT: Acronym for Texas Department of Transportation, a state agency.

UTILITY FUND: A proprietary or enterprise fund used to account for the provision of water, wastewater, and sanitation services to the City's residents on a cost recovery basis through user charges.

WORKING CAPITAL: The amount that current assets exceed current liabilities.

CITY OF THE COLONY, TEXAS
ORDINANCE NO. 08-1780

ADOPT TAX RATE FOR FISCAL YEAR 2008-2009

AN ORDINANCE OF THE CITY OF THE COLONY, TEXAS, LEVYING THE AD VALOREM TAXES FOR THE YEAR 2008 AT A RATE OF $.69 PER ONE HUNDRED DOLLARS ($100) ASSESSED VALUATION OF ALL TAXABLE PROPERTY WITHIN THE CORPORATE LIMITS OF THE CITY AS OF JANUARY 1, 2008; TO PROVIDE REVENUES FOR THE PAYMENT OF CURRENT EXPENSES AND TO PROVIDE AN INTEREST AND SINKING FUND ON ALL OUTSTANDING DEBTS OF THE CITY; PROVIDING FOR DUE AND DELINQUENT DATES TOGETHER WITH PENALTIES AND INTEREST; AND DECLARING AN EFFECTIVE DATE.

BE IT SO ORDAINED BY THE CITY COUNCIL OF THE CITY OF THE COLONY, TEXAS:

SECTION 1: That there be and is hereby levied for the year 2008, on all taxable property, real, personal and mixed, situated within the limits of the city of The Colony, Texas, and not exempt by the Constitution of the State and valid State laws, a tax of $.69 on each One Hundred Dollars ($100) assessed value of taxable property, and shall be apportioned and distributed as follows:

(a) For the purpose of defraying the current expenses of municipal government of the City, a tax of $.48928 on each One Hundred Dollars ($100) assessed value of all taxable property.

(b) For the purpose of creating a sinking fund to pay interest and principal on all outstanding bonds of the City, not otherwise provided for, a tax of $.20072 on each One Hundred Dollars ($100) assessed value of all taxable property, within the City, which shall be applied to the payment of such interest and maturities of all Outstanding bonds.

THIS TAX RATE WILL RAISE MORE TAXES FOR MAINTENANCE AND OPERATIONS THAN LAST YEAR'S TAX RATE AND THE TAX RATE WILL RAISE TAXES FOR MAINTENANCE AND OPERATIONS ON A $100,000 HOME BY APPROXIMATELY $14.26.

SECTION 2: That all ad valorem taxes shall become due and payable on October 1, 2008 and all ad valorem taxes for the year shall become delinquent after January 31, 2009. There shall be no discount for payment of taxes prior to said January 31, 2009. If any person fails to pay the

ad valorem taxes on or before the 31st day of January 2009, the following penalties shall be payable thereon, to-wit:

> During the month of February, seven percent (7%); during the month of March, nine percent (9%); during the month of April, eleven percent (11%); during the month of May, thirteen percent (13%); during the month of June, fifteen percent (15%); and on or after the 1st day of July, eighteen percent (18%).

SECTION 3: Taxes are payable at the Denton County office of the tax collector who on behalf of The Colony collects ad valorem taxes for The Colony. The City shall have available all rights and remedies provided by law for enforcement of the collection of taxes levied under this ordinance.

SECTION 4: That the tax rolls, as presented to the City Council, together with any supplement thereto, be, and the same are hereby approved.

SECTION 5: The fact that it is necessary that this ordinance be enacted in order to authorize the collection of ad valorem taxes for the year 2008, this ordinance shall take effect from and after its passage as the law in such cases provides.

DULY PASSED AND APPROVED, this the 15th day of September, 2008.

John Dillard, Mayor
City of The Colony, Texas

ATTEST:

Christie Wilson, TRMC, City Secretary

THE CITY OF THE COLONY SEAL TEXAS

APPROVED AS TO FORM:

City Attorney
City of The Colony, Texas

CITY OF THE COLONY, TEXAS
ORDINANCE NO. 08-1779

ADOPT MUNICIPAL BUDGET FOR FISCAL YEAR 2008-2009

AN ORDINANCE OF THE CITY OF THE COLONY, TEXAS APPROVING THE REVISED BUDGET FOR FISCAL YEAR 2007-2008; APPROVING AND ADOPTING A BUDGET FOR THE CITY FOR THE FISCAL YEAR BEGINNING OCTOBER 1, 2008, THROUGH SEPTEMBER 30, 2009; PROVIDING FOR THE INTRA AND INTER-DEPARTMENT FUND TRANSFERS; PROVIDING FOR THE INVESTMENT OF CERTAIN FUNDS; PROVIDING THAT EXPENDITURES FOR SAID FISCAL YEAR SHALL BE MADE IN ACCORDANCE WITH SAID BUDGET; AND DECLARING AN EFFECTIVE DATE.

BE IT SO ORDAINED BY THE CITY COUNCIL OF THE CITY OF THE COLONY, TEXAS:

WHEREAS, the budget for fiscal year 2007-2008 has been revised since its adoption on September 30, 2007; and

WHEREAS, the Finance Director of the city of The Colony, Texas has heretofore filed with the City Secretary, a proposed general budget for the City covering the fiscal year 2008-2009; and

WHEREAS, notices of a public hearing on the Budget for the city of The Colony, Texas, for the fiscal year 2008-2009 was heretofore published in accordance with law; and

WHEREAS, a public hearing was duly held and all interested persons were given an opportunity to be heard for or against any item therein.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF THE COLONY, TEXAS:

SECTION 1: That the revised budget for fiscal year 2007-2008 as adopted by the City Ordinance No. 07-1736 on September 30th, 2007 is hereby approved as amended.

SECTION 2: That the attached budget, presented by the City Manager and reviewed during the public hearing, and as amended be approved for the fiscal year 2008-2009.

SECTION 3: That the City Manager be and is hereby authorized to make intra and Council approved inter-departmental fund transfers during the fiscal year as becomes necessary in order to avoid over-expenditures of a particular account.

SECTION 4: That the City Manager, unless expressly prohibited by law, or unless it is in contravention of any Depository Contract, may direct the City Finance Director to invest funds in accordance with the City's Investment Policy.

SECTION 5: That said Budget be attached to this Ordinance as Exhibit "A" and made a part hereof for all purposes.

SECTION 6: The fact that the fiscal year begins on October 1, 2008, requires that this Ordinance be effective upon its passage and adopted to preserve the public peace, property, health and safety, and shall be in full force and effect from and after its passage and adoption.

DULY PASSED AND APPROVED, this the 15th day of September, 2008.

John Dillard, Mayor
City of The Colony, Texas

ATTEST:

Christie Wilson, TRMC, City Secretary

THE CITY OF THE COLONY
SEAL
TEXAS

APPROVED AS TO FORM:

City Attorney
City of The Colony, Texas

CAPITAL EXPENDITURES AND DEBT ISSUANCES

Capital expenditures are expenditures for use in operation that will provide at least a three year useful life following the date of acquisition.

The total capital expenditures approved in the fiscal year 2008-2009 amounts to $1.5 million for various equipment and enhancements; $9.1 million for enterprise projects and the budget for governmental projects has not been determined due to the volatility of the commodity pricing and the economic uncertainty. The funding source will be from debt issuance in the summer of 2009 and General Fund fund balance. A list of the approved equipment, enhancements, enterprise projects and preliminary list of governmental projects can be found in the Capital Project section.

The City sold $1 million in revenue bonds in 1995 and $810,000 in revenue bonds in 1996 to repair and improve the City's Wastewater Treatment Plant. These issues were through the Texas Water Development Board and the State Revolving Fund (SRF). The major cost included sludge handling equipment, removal of a 3.0 million gallon sludge pond, and a bubble diffuser system. The current capacity of the plant is 4.5 million gallons per day, but is permitted at 3.5 million gallons per day with the Texas Commission on Environmental Quality (TCEQ).

The City has also sold $515,000 of revenue bonds (Series 1996-B) for waterline and sewer line improvements. These additions are along FM 423 on the north side of the City's Main Street. This project was started in 1996 and was finished in 1998.

In January of 1998, the City issued bonds for $4,055,000 of Certificates of Obligation and $3,105,000 of Water and Sewer System Revenue Bonds. The certificates were for the purchase of a new City Hall and renovations, purchase of public safety equipment for the Fire Department, street improvements for Memorial Drive, and athletic field improvements for Parks and Recreation. The revenue bonds were for the construction of two water towers, improvements to water and sewer lines to the City's Eastvale section, and additions of water and sewer lines to the City's new Wal-Mart Superstore. The City Hall project was finalized in the 2000-2001 budget along with the Eastvale Improvements. A water tower was completed at the Legends to supply water for the area.

The above revenue bonds were refunded in 2008 due to the favorable interest rate environment.

The City has issued $16,170,000 in debt the past few years for street improvements. Infrastructure improvements are a high priority of the City Council. In fiscal year 2000-2001, the City issued about $7,000,000 in debt for a multi-sports athletic complex. This project was completed in Fall 2003 with games beginning in Spring 2004.

In August 2002, the City issued $14,000,000 Certificates of Obligation for street projects ($5,385,000), municipal parks and recreation system ($350,000), waterworks and sewer system ($3,000,000), storm water drainage ($2,050,000), municipal buildings ($1,515,000), information technologies and computer equipment ($125,000), and vehicles and other equipment ($1,575,000).

In September 2003, the City issued $5,200,000 Certificates of Obligation for street projects ($3,175,000), municipal buildings ($805,000), information technologies and computer equipment ($110,000), radio equipment ($550,000), and vehicles and other equipment ($560,000). These capital investments will not incur any additional operating costs upon completion or acquisition of these capital assets. The state-of-the-art radio equipment provides an efficient communication system for Police, Fire, Public Works, Parks and Recreation, City Administration and other departments, and improves safety concerns. Renovation of the Municipal Buildings makes room for offices and other activities. A few capital projects are financed by the Operating Budget and

Capital Projects Funds surpluses thus contributing to the overall quality of life for the citizens of The Colony.

In August 2004, the City issued $5,400,000 Certificates of Obligation for street projects ($2,538,729), fire station ($2,257,000), equipment ($270,000), and contingency and issuance costs ($334,271). The City is to provide for the payment of the debt service (principal and interest) from the Ad Valorem taxes. The capital funding will improve the City's aging streets and public safety issues.

The City also issued a $19,315,000 Water and Sewer System Revenue Bonds to finance the construction of water lines ($400,000), replacing water well #3 ($1,800,000), ground storage tank ($762,250), lift station and force main ($415,300), expansion and upgrading of the wastewater treatment plant ($12,000,000), acquisition of land for future water infrastructure ($850,000), well chlorination and ammonia systems ($570,000), Bond Reserve ($1,382,287), Equipment ($430,000), and other and issuance costs ($705,163).

The City issued debt in February, 2006 in the amounts of $17.5 million for water and sewer infrastructure; $1.25 million 5 year note for equipment, computer hardware and software and vehicles; and approximately $2.8 million for economic incentives for the Jackson-Shaw project. Debt service payments for the $17.5 million Certificates of Obligation will be paid by a transfer from the Utility operating fund, $1.25 million by Ad Valorem taxes and the $2.8 million by 4A sales taxes.

Capital needs for fiscal year 2007 were financed by the issuance of Certificates of Obligation in the summer of 2007 for the acquisition of $750,000 of vehicles and equipment, $9 millions of water and sewer infrastructure, and $6.5 millions of constructing and paving streets, and for design and construction of municipal buildings.

Capital needs for fiscal year 2008 were financed by the issuance of Certificates of Obligation in the summer of 2008 for the acquisition of $1.7M for various equipment .

CITY OF THE COLONY

RESOLUTION NO. 06-095

A RESOLUTION OF THE CITY OF THE COLONY, TEXAS ADOPTING THE CITY OF THE COLONY'S FINANCIAL MANAGEMENT AND DEBT MANAGEMENT POLICIES TO BECOME EFFECTIVE UPON ITS PASSAGE AND APPROVAL.

WHEREAS, it is the goal of the City to maintain a long-term stable and positive financial condition; and

WHEREAS, well planned and prudent financial and debt management is essential to the achievement of the City's goal.

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF THE COLONY, TEXAS:

SECTION 1: That the City Council hereby adopts the City's Financial Management and Debt Management Policies.

SECTION 2: That this resolution shall be in force immediately upon its passage in accordance with the Charter of the City of The Colony and it is accordingly so resolved.

PASSED AND APPROVED by the City Council of the City of The Colony, Texas, this 6th day of **November**, 2006.

John Dillard, Mayor

ATTEST:

Christie Wilson, TRMC, City Secretary

THE CITY OF THE COLONY SEAL TEXAS

CITY OF THE COLONY

FINANCIAL MANAGEMENT POLICIES

November 1, 2006

Prepared by the Finance Department
Approved by the City Manager
Confirmed by the City Council on November 6, 2006

FINANCIAL MANAGEMENT POLICIES

Table of Contents

		Page No.
I.	Purpose Statement	1
II.	Accounting, Auditing and Financial Reporting	1
	A. Accounting	
	B. Funds	
	C. External Auditing	
	D. External Auditors Responsible to City Council	
	E. External Auditors Rotation	
	F. External Financial Reporting	
	G. Internal Financial Reporting	
III	Internal Controls	2
	A. Written Procedures	
	B. Department Managers Responsible	
IV.	Operating Budget	2
	A. Preparation	
	B. Balanced Budget	
	C. Planning	
	D. Reporting	
	E. Control	
	F. Performance Measures and Productivity Indicators	
V.	Capital Improvement Program	3
	A. Preparation	
	B. Control	
	C. Program Planning	
	D. Alternate Resources	
	E. Debt Financing	
	F. Street Maintenance	
	G. Water/Wastewater Main Rehabilitation and Replacement	
	H. Water and Wastewater Special Projects	
	I. Reporting	

FINANCIAL MANAGEMENT POLICIES

Table of Contents

		Page No.
VI.	Revenue Management	4
	A. Simplicity	
	B. Certainty	
	C. Equity	
	D. Administration	
	E. Revenue Adequacy	
	F. Cost/Benefit of Abatement	
	G. Diversification and Stability	
	H. Non-recurring Revenues	
	I. Property Tax Revenues	
	J. User-Based Fees	
	K. Impact Fees	
	L. General and Administrative Charges	
	M. Utility Rates	
	N. Interest Income	
	O. Revenue Monitoring	
VII.	Expenditure Control	6
	A. Appropriations	
	B. Contingency Account Expenditures	
	C. Purchasing	
	D. Professional Services	
	E. Prompt Payment	
	F. Equipment Financing	
	G. Information Technology	
VIII.	Asset Management	7
	A. Investments	
	B. Cash Management	
	C. Investment Performance	
	D. Fixed Assets and Inventory	

FINANCIAL MANAGEMENT POLICIES

Table of Contents

		Page No.
IX.	Financial Condition and Reserves	7
	A. No Operating Deficits	
	B. Interfund Loans	
	C. Operating Reserves	
	D. Risk Management Program	
	E. Loss Financing	
	F. Enterprise Fund Self-Sufficiency	
X.	Debt Management	8
	A. General	
	B. Self Supporting-Debt	
	C. Analysis of Financing Alternatives	
	D. Voter Authorization	
XI.	Staffing and Training	8
	A. Adequate Staffing	
	B. Training	
	C. Awards, Credentials	
XII.	Grants Financial Management	9
	A. Grant Solicitation	
	B. Responsibility	
XIII.	Annual Review & Reporting	9

I. PURPOSE STATEMENT

These policies are developed by the City Manager to guide the Finance Director, and staff in financial matters. The overriding goal of the Financial Management Policies is to enable the City to achieve a long-term stable and positive financial condition while conducting its operations consistent with the council-manager form of government established in the City Charter. The watchwords of the City's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Financial Management Policies is to provide guidelines for the financial management staff in planning and directing the City's day-to-day financial affairs and in developing recommendations to the City Manager.

The scope of the policies spans accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash management, expenditure control, and debt management.

II. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

A. **ACCOUNTING –** The City's Accounting Manager is responsible for establishing the chart of accounts, and for properly recording financial transactions.

B. **FUNDS** - Self-balancing groups of accounts are used to account for City financial transactions in accordance with generally accepted accounting principles. Each fund is created for a specific purpose except for the General Fund, which is used to account for all transactions not accounted for in other funds. Funds are created and fund names are changed by City Council approval through resolution either during the year or in the City Council's approval of the annual operating budget ordinances.

C. **EXTERNAL AUDITING –** The City will be audited annually by outside independent auditors. The auditors must be a CPA firm capable to demonstrate that they have the breadth and depth of staff to conduct the City's audit in accordance with generally accepted auditing standards, generally accepted government auditing standards, and contractual requirements. The auditors' report on the City's financial statements including federal grants single audit when required, will be completed within 120 days of the City's fiscal year end, and the auditors' management letter will be presented to the City staff within 150 days after the City's fiscal year end. An interim management letter will be issued prior to this date if any materially significant internal control weaknesses are discovered. The City staff and auditors will jointly review the management letter with the City Council within 60 days of its receipt by the staff.

D. **EXTERNAL AUDITORS RESPONSIBLE TO CITY COUNCIL –** The external auditors are accountable to the City Council and will have access to direct communication with the City Council if the City staff is unresponsive to auditor recommendations or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.

The City Council may conduct closed session annually with the auditors present without the presence of City staff. Such meeting shall be conducted in accordance with the Open Meetings Act.

E. **EXTERNAL AUDITOR ROTATION –** The City will not require external auditor rotation, but will circulate requests for proposal for audit services periodically, normally at five-year intervals.

F. **EXTERNAL FINANCIAL REPORTING –** The City will prepare and publish a Comprehensive Annual Financial Report (CAFR). The CAFR will be prepared in accordance with generally accepted accounting principles, and will be presented annually to the Government Finance Officers Association (GFOA) for evaluation and awarding of the Certification of Achievement for Excellence in Financial Reporting. The CAFR will be published and presented to the City Council within 120 days after the end of the fiscal year. City staffing limitations may preclude such timely reporting. In such case, the Finance Director will inform the City Manager and the City Manager will inform the City Council of the delay and the reasons therefore.

G. **INTERNAL FINANCIAL REPORTING -** The Finance Department will prepare internal financial reports sufficient for management to plan, monitor, and control the City's financial affairs. Internal financial reporting objectives are addressed throughout the policies.

III. INTERNAL CONTROLS

A. **WRITTEN PROCEDURES –** The Finance Director is responsible for developing citywide written guidelines on accounting, cash handling, and other financial matters, which will be approved by the City Manager.

The Finance Department will assist department directors as needed in tailoring these guidelines into detailed written procedures to fit each department's requirements.

B. **DEPARTMENT MANAGERS RESPONSIBLE –** Each department director is responsible to the City Manager to ensure that good internal controls are followed throughout his or her department, that all guidelines on accounting and internal controls are implemented, and that all independent auditor internal control recommendations are addressed.

IV. OPERATING BUDGET

A. **PREPARATION –** The City's "Operating Budget" is the City's annual financial operating plan. It consists of governmental and proprietary funds, including the general obligation and revenue supported Debt Service Funds, but excluding Capital Projects Funds. The budget is prepared by the Finance Department with the cooperation of all City departments, and is submitted to the City Manager who makes any necessary changes and transmits the document to the City Council.

The preliminary budget should be filed with the City Secretary's office on or before July 31 each fiscal year, and presented to the City Council. Thereafter, the final budget should be enacted by the City Council prior to fiscal year end. The operating budget shall be submitted to the GFOA annually for evaluation and awarding of the Award for Distinguished Budget Presentation.

B. **BALANCED BUDGET –** The operating budgets will be balanced, with current revenues, and prior year surpluses greater than or equal to current expenditures/expenses except a rainy day fund reserve of sixty (60) days.

C. **PLANNING –** The budget process will be coordinated to identify major policy issues for City Council's consideration several months prior to the budget approval date.

D. **REPORTING –** Periodic financial reports will be prepared to enable the department directors to manage their budgets and to enable the Finance Department to monitor and control the budget as authorized by the City Council. Summary financial reports will be presented to the City Council each month within four weeks after the month end. Such reports will include current year revenue and expenditures in comparison to budget and prior year actual revenues and expenditures.

E. **CONTROL –** Operating Expenditure Control is addressed in another section of the Policies.

F. **PERFORMANCE MEASURES AND PRODUCTIVITY INDICATORS –** Where appropriate, performance measures and productivity indicators will be used as guidelines and reviewed for efficiency and effectiveness. This information will be included in the annual budgeting process.

V. CAPITAL IMPROVEMENT PROGRAM

A. **PREPARATION –** The City's Capital Improvement Program will include all capital projects. The Capital Improvement Plan will be prepared annually on a fiscal year basis.

The Capital Improvement Plan will be prepared by the Finance Department with the involvement of all required City departments.

B. **CONTROL –** All capital project expenditures must be approved by City Council. The Finance Department must ensure the availability of resources before a capital project contract is presented by the City Manager to the City Council for approval.

C. **PROGRAM PLANNING –** The Capital Improvement Plan will include capital improvements program plans for future years. The planning time frame should normally be at least five years. The replacement and maintenance for capital items should also be projected for the next 5 years. Future maintenance and operations will be fully costed, so that these costs can be considered in the operating budget.

D. **ALTERNATE RESOURCES –** Where applicable, assessments, impact fees, or other user-based fees should be used to fund capital projects, which have a primary benefit to certain property owners.

E. **DEBT FINANCING –** Recognizing that debt is usually a more expensive financing method, alternative financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives, which equal or exceed the average life of the debt issued. The exceptions to this requirement are the traditional costs of marketing and issuing the debt, capitalized labor for design and construction of capital projects, and small component parts which are attached to major equipment purchases.

F. **STREET MAINTENANCE –** The City recognizes that deferred street maintenance increases future capital costs by an estimated 5 to 10 times. Therefore, a portion of the General Fund Budget and/or debt issuances may be set aside each year to maintain the quality of streets. The amount will be established annually so that repairs will be made.

G. **WATER/WASTEWATER MAIN REHABILITATION AND REPLACEMENT –** The City recognizes that deferred water/wastewater main rehabilitation and replacement increases future costs due to loss of potable water from water mains and inflow and infiltration into wastewater mains. Therefore, to ensure that the rehabilitation and replacement program is adequately funded, the City's goal will be to annually appropriate an amount to provide for a water and wastewater main repair and replacement program.

H. **WATER AND WASTEWATER SPECIAL PROJECTS –** A special fund will be maintained for water and wastewater capital projects. The fund will be funded with operating surpluses, interest earnings, and transfers from water and wastewater operations. As soon as practicable, after each fiscal year end when annual operating results are known, any Water/Wastewater Fund operating surplus in excess of budget which is not required to meet ending resources requirements, may be transferred to the Special Projects Fund with the approval of the City Council. The fund will be used for funding water/wastewater main rehabilitation and replacement, for major capital outlay, and for unplanned projects.

I. **REPORTING –** Periodic financial reports will be prepared to enable the department managers to manage their capital budgets and to enable the Finance Department to monitor the capital budget as authorized by the City Council.

VI. REVENUE MANAGEMENT

A. **SIMPLICITY –** The City will strive to keep the revenue system simple, which will result in a decrease of compliance costs for the taxpayer or service recipient and a corresponding decrease in avoidance to pay. The City will avoid nuisance taxes, fees, or charges as revenue sources.

B. **CERTAINTY –** An understanding of the revenue source increases the reliability of the revenue system. The City will enact consistent collection policies for its revenues so that assurances can be provided that the revenue base will materialize according to budgets and plans.

C. **EQUITY –** The City will strive to maintain equity in the revenue system structure. That is, the City will seek to minimize or eliminate all forms for subsidization between entities, funds, services, utilities, and customers. However, it is recognized that public policy decisions may lead to subsidies in certain circumstances, e.g., senior citizen property tax exemptions or partial property tax abatement.

D. **ADMINISTRATION –** The benefits of revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed annually for cost effectiveness. Where appropriate, the City will use the administrative processes of State or Federal collection agencies in order to reduce administrative costs.

E. **REVENUE ADEQUACY –** The City will require that there be a balance in the revenue system. That is, the revenue base will have the characteristic of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.

F. **COST/BENEFIT OF ABATEMENT –** The City will use due caution in the analysis of any tax, fee, or water and wastewater incentives that are used to encourage development. Ideally, a cost/benefit (fiscal impact) analysis will be performed as a part of such analysis.

G. **DIVERSIFICATION AND STABILITY –** In order to protect the government from fluctuations in revenue source due to fluctuations in the economy, and variations in weather, (in the case of water and wastewater), a diversified revenue system will be maintained.

H. **NON-RECURRING REVENUES –** One-time revenues will not be used for ongoing operations. Non-recurring revenues will be used only for non-recurring expenditures. Care will be taken not to use these revenues for budget balancing purposes.

I. **PROPERTY TAX REVENUES –** Property shall be assessed at 100% of the fair market value as appraised by the Denton Central Appraisal District. Reappraisal and reassessment shall be done regularly as required by State law.

All delinquent taxes will be aggressively pursued, with delinquents greater than 150 days being turned over to the City Attorney or a private attorney, and a penalty assessed to compensate the attorney as allowed by state law, and in accordance with the attorney's contract.

J. **USER-BASED FEES –** For services associated with a user fee or charge, the direct and indirect costs of that service will be offset by a fee where possible. There will be a periodic review of fees and charges to ensure that fees provide adequate coverage of costs of services. User charges may be classified as "full cost recovery," "partial cost recovery," and "minimal cost recovery," based upon City Council policy.

K. **IMPACT FEES –** Impact fees are currently imposed for water, wastewater, roadway, and drainage in accordance with applicable city ordinances and State Law. Impact fees will be re-evaluated at least every five years as required by law.

L. **GENERAL AND ADMINISTRATIVE CHARGES –** A method will be maintained whereby the General Fund can impose a charge to the enterprise funds or special revenue funds for general and administrative services (indirect costs), performed on their behalf. The details will be documented in the annual budget process in the form of transfers between funds.

M. **UTILITY RATES –** The City will review utility rates periodically, and if necessary, adopt new rates that will generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants, provide for an adequate level of working capital needs and debt service requirements. This policy does not preclude drawing down cash balance to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects.

N. **INTEREST INCOME –** Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the average monthly cash balances.

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

VII. EXPENDITURE CONTROL

A. **APPROPRIATIONS –** The level of budgetary control is the department level budget in the General Fund, Utility Fund and the fund level in all other funds. When budget adjustments (i.e., amendments) between departments and/or funds are necessary, these must be approved by the City Council. Budget appropriation amendments at lower levels of control shall be made in accordance with the applicable administrative procedures.

B. **CONTINGENCY ACCOUNT EXPENDITURES –** The City Council must approve all contingency account expenditures of $25,000 or more, as discussed under Purchasing.

C. **PURCHASING –** All purchases shall be in accordance with the City's Purchasing Policies.

D. **PROFESSIONAL SERVICES –** Professional services will generally be processed through a request for proposal process, except for smaller contracts. The City Manager may execute any professional services contract for less than $25,000 provided there is an appropriation for such contract.

E. **PROMPT PAYMENT –** All invoices will be paid within 30 days of receipt of goods and services or receipt of invoices, whichever is later in accordance with the prompt payment requirements of state law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. However, payments will also be reasonably delayed in order to maximize the City's investable cash, where such delay does not violate the agreed upon payment terms.

F. **EQUIPMENT FINANCING –** Equipment may be financed when the useful life is at least three years. Vehicles to be replaced are identified and evaluated every year during the budget process. Depending on available resources, financing may be made by debt issuance rather than from the General Fund and Utility Fund accounts.

G. **INFORMATION TECHNOLOGY –** Certain information technology acquisitions will be funded in the Information Technology Department's budget or by debt issuance. Acquisitions may include all related professional services costs for researching and/or implementing an information technology project. Lease cost is also an eligible expense.

VIII. ASSET MANAGEMENT

A. **INVESTMENTS –** The City's investment practices will be conducted in accordance with the City Council approved Investment Policies.

B. **CASH MANAGEMENT –** The City's cash flow will be managed to maximize the cash available to invest.

C. **INVESTMENT PERFORMANCE –** A quarterly report on investment performance will be provided by the Finance Director to the City Manager for presentation to the City Council.

D. **FIXED ASSETS AND INVENTORY –** These assets will be reasonably safeguarded and properly accounted for, and prudently insured.

IX. FINANCIAL CONDITION AND RESERVES

A. **NO OPERATING DEFICITS –** Current expenditures will be paid with current revenues and prior year surplus. Deferrals, short-term loans, or one-time sources will be avoided as budget balance techniques. Reserves will be used only for emergencies or non-recurring expenditures, except when balances can be reduced because their levels exceed guideline minimums.

B. **INTERFUND LOANS -** Non-routine interfund loans shall be made only in emergencies where other temporary sources of working capital are not available and with the approval of the City Council. At the time an interfund loan is considered, a plan to repay it prior to fiscal year end shall also be considered.

A fund will only lend money that it will not need to spend in the immediate future. A loan may be made from a fund only if the fund has ending resources in excess of the minimum requirement for the fund. Total interfund loans outstanding from a fund shall not exceed 15% of the target fund balance for the fund. If any interfund loan is to be repaid from the proceeds of a future debt issue, a proper reimbursement resolution will be approved at the time the loan is authorized.

C. **OPERATING RESERVES –** Failure to meet these standards will be disclosed to the City Council as soon as the situation is recognized and a plan to replenish the ending resources over a reasonable time frame shall be adopted.

(1) The General fund ending resources balance will be maintained at a level of at least 60 days of expenditures.
(2) The ending resources of the Water/Wastewater Fund will be maintained at a level of at least 60 days of expenditures.

D. **RISK MANAGEMENT PROGRAM –** The City will aggressively pursue every opportunity to provide for the public's and City employees' safety and to manage its risks.

E. **LOSS FINANCING –** All reasonable options will be investigated to finance losses. Such options may include risk transfer, insurance, and risk retention.

F. **ENTERPRISE FUND SELF-SUFFICIENCY –** The City's enterprise funds resources will be sufficient to fund operating and capital expenditures. The enterprise funds will pay (where applicable) their fair share of general and administrative expenses in lieu of property taxes and/or franchise fees. If an enterprise fund is temporarily unable to pay all expenses, then the City Council 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 interfund loans to be repaid at a future date.

X. DEBT MANAGEMENT

A. **GENERAL –** The City's borrowing practices will be conducted in accordance with the City Council approved Debt Management Policies.

B. **SELF-SUPPORTING DEBT –** When appropriate, self-supporting revenues will pay debt services in lieu of tax revenues.

C. **ANALYSIS OF FINANCING ALTERNATIVES –** The City will explore all financing alternatives in addition to long-term debt including leasing, grants and other aid, developer contributions, impact fees, and use of reserves or current monies.

D. **VOTER AUTHORIZATION –** The City shall obtain voter authorization before issuing General Obligation Bonds as required by law. In general, voter authorization is not required for the issuance of Revenue Bonds and Certificates of Obligation.

XI. STAFFING AND TRAINING

A. **ADEQUATE STAFFING –** Staffing levels will be adequate for the fiscal functions of the City to function effectively. Workload shedding alternatives will be explored before adding staff.

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

C. **AWARDS, CREDENTIALS –** The City will support efforts and involvements which result in meeting standards and receiving exemplary recitations on behalf of any of the

City's fiscal policies, practices, processes, products, and personnel. Staff certifications may include Certified Public Accountant, Certified Management Accountant, Certified Internal Auditor, Certified Payroll Professional, Certified Government Finance Officer, Professional Public Buyer, Certified Cash Manager, and others as approved by the City Manager upon recommendation of the Finance Director.

XII. GRANTS FINANCIAL MANAGEMENT

A. **GRANT SOLICITATION –** The City will stay informed about available grants and will apply for any, which would be cost/beneficial and meet the City's objectives.

B. **RESPONSIBILITY –** Departments will oversee the day to day operations of grant programs, will monitor performance and compliance, and will also keep Finance Department contacts informed of significant grant-related plans and activities. Departments will also report re-estimated annual grant revenues and expenses to the Finance Department after the second quarter of each year. Finance Department staff members will serve as liaisons with grantor financial management personnel, and will keep the book of accounts for all grants.

XIII. ANNUAL REVIEW & REPORTING

A. These Policies will be reviewed administratively by the City Manager at least annually, and will be presented to the City Council for confirmation of any significant changes.

B. The Finance Director will report annually to the City Council on compliance with these policies.