

City of Kaufman

FINANCIAL POLICIES

PURPOSE

The purpose of formally adopting financial management and budgetary policies is to provide sound guidelines in planning the City's financial future. The financial policies outlined below are followed by the City during budget preparation and implementation. Each of the policies has been established to maintain the financial stability and integrity of the City of Kaufman.

GENERAL BUDGETARY POLICIES

- A. **Budget Preparation** – In accordance with the City Charter, the City Manager shall submit to the Council a proposed budget for the ensuing fiscal year and an accompanying message on or before August 1st of the fiscal year. The proposed budget shall be prepared in accordance with all applicable Charter requirements and State laws. The budget shall be comprehensive in nature and address all operating funds of the City.
- B. **Balanced Budget** – It is expected that each year the budget of each fund shall be balanced. This means that total resources available, including fund balances plus projected revenue, shall be equal to or greater than the projected expenditures for the coming year. In a case where a deficit fund balance does occur, the goal shall be to adjust revenues and/or expenses so that the deficit is eliminated the following year.
- C. **Public Hearings, Availability of Budget to Public** – Copies of the proposed budget shall be available for public inspection at any time after the proposed budget is submitted to Council. By providing this information early, the public has ample opportunity for input into the planning process. It shall be the policy of the City to have at least one public hearing on the Proposed Budget at a duly advertised public meeting not less than ten days nor more than thirty days after the date of notice. As required by City Charter, at least ten days prior to the beginning of the next fiscal year the City Council shall adopt the budget through passage of an Ordinance. Should the City Council take no final action on or prior to such day, the current budget shall be in force on a month-to-month basis until a new budget is adopted. Appropriations, except an appropriation for the Capital Improvement Plan (CIP), shall lapse at the end of each fiscal year. An appropriation for the Capital Improvement Plan (CIP) shall continue in force until the purpose for which it was made had been accomplished or abandoned. The purpose of any such appropriation shall be deemed abandoned if three years pass without any disbursement from or

encumbrance of the appropriation. Any funds not expended, disbursed or encumbered shall be deemed excess funds.

- D. **Cost Accounting and Budget** – It shall be the policy of the City to allocate all direct costs, and budget according to the various funds, to the extent practical. This includes such items as utility costs, fuel costs, insurance, overhead and manpower. The City’s accounting and budgetary records for governmental fund type operations are maintained and the financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when measured and available; and expenditures are recorded when the liability is incurred. Accounting records for the City’s proprietary funds are budgeted and maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.
- E. **Bond Ratings** – The City’s policy shall be to manage its budget and financial affairs in such a way so as to promote enhancement of its bond ratings. Full disclosure of operations and open lines of communication shall be made to the rating agencies.
- F. **Budget Projections for Revenues and Expenditures** – The City shall estimate revenues and expenditures on an objective and reasonable, yet conservative basis. The City shall consider both historical information and economic trends during the budget process. A five year forecast that examines critical issues facing the City shall be part of the proposed budget. This forecast shall include revenues, expenditures, and a discussion of major trends affecting the City’s financial position. The purpose of this forecast is to provide further insight into the City’s financial position and alert the Council to potential problem areas requiring attention.
- G. **Maintenance of Plant and Equipment** – The operating budget will provide revenues sufficient for adequate maintenance and replacement of capital plants, buildings, infrastructure, and equipment. Deferral of such costs on a long-term continued basis would not be an acceptable policy to use in balancing the budget.

FUND BALANCE POLICIES

- A. **Fund Balance** – The fund equity of a governmental fund for which an accounting distinction is made between the portions that are spendable and non-spendable. Fund balance is classified into five categories:
 - a. **Non-spendable fund balance** – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term

loans, or prepaids) or because they must remain in-tact such as the principal of an endowment.

- b. **Restricted fund balance**– includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.
 - c. **Committed fund balance** – includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a formal action, i.e., *Ordinance*, by the City Council. Commitments may be changed or lifted only by the Council taking the same formal action, i.e., *Ordinance*, that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
 - d. **Assigned fund balance** – includes the portion of net resources for which an *intended* use has been established by the City Council or the City Manager. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.
 - e. **Unassigned fund balance** – includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classification. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.
- B. **Minimum Unassigned Fund Balances** – The appropriate amount that a city should carry in Fund Balance or Reserves depends on circumstances such as adequacy of its insurance coverage, the flexibility of its revenue base, overall financial condition of the City, economic conditions, age and condition of its infrastructure, and the likelihood of natural disasters or unplanned emergencies.

It shall be the long-term goal of the City to maintain a minimum unrestricted fund balance in the General Fund equal to three month's of the annually

budgeted expenditures. The City will appropriate one percent (1%) of each year's General Fund budgeted expenditures until the identified goal is met.

For the Enterprise Fund, cash balances are to be maintained, at the minimum, in an amount equal to three month's of annually budgeted expenses. The City will allocate one percent (1%) of each year's budgeted expenses until the identified goal is met.

In order to alleviate the potential for undue hardship during austere times when such reserve appropriation(s) would cause unjustified hardship to municipal operations, the requirement for a budgetary reserve may be suspended by a resolution passed and approved by the City Council.

- C. **Use of Fund Balance/Net Assets** – Fund Balance/Net Assets may be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. Should such use reduce the balance below the appropriate level set as the objective for that fund, recommendations shall be made on how to restore it. When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.
- D. **Monitoring and Reporting** – The Director of Finance shall be responsible for monitoring and reporting the City's various reserve balances. The City Manager is directed to make recommendations to the Council on the use of reserve funds both as an element of the annual operating budget submission and from time to time throughout the fiscal year as needs may arise. Compliance with the provisions of the policy shall be reviewed as part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures.

SINKING FUNDS

- C. **Revenue Bond Interest and Sinking Account** - It shall be the policy of the City to always be in compliance with the requirements of all ordinances that created the need for our Revenue Bond Interest and Sinking Account(s). Monthly payments are to be made to this account each year in accordance with the bond ordinance. The balance in the account must be adequate so that when semi-annual payments are due there will be sufficient funds in the account(s) to meet the total principal and interest payments.
- D. **Tax Bond Interest and Sinking Account** - It shall be the policy of the City to always be in strict compliance with the requirements of the ordinances that create the need to maintain our Tax Bond Interest and Sinking Account(s).

Taxes shall be distributed to the account daily, as received. The balance in the account must be adequate so that when semi-annual payments are due there will be sufficient funds in the account to meet the total principal and interest payments.

LONG TERM DEBT POLICIES

- A. **Capital Improvement Plan** – The City shall annually review and monitor the condition of the City’s capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives and availability of resources. Each year there shall be an effort to include some capital items needed by operating funds out of operating revenues. Major capital improvements will normally be funded through the issuance of long-term debt, as opposed to being funded via appropriations in the operating budget.
- B. **Debt Policies** – No direct funded debt limitation is imposed on the City under current state law or the City’s Home Rule Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, which adopts the constitutional provisions.

The City’s policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations. The City shall not issue long-term debt for a period longer than the estimated useful life of: (a) the capital project funded by the debt, or (b) the life of the capital equipment being financed. The general policy of the City shall be to sell bonds on the basis of competitive bids unless the nature of the issue warrants a negotiated bid. The City shall strive to minimize the maturity of long-term debt. City staff, with assistance of financial advisors, will monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt.

REVENUE POLICIES

- A. **Collection of Charges** - The City will strive to operate a revenue system which is simple and enacts consistent collection policies so that assurances can be provided that the revenue base will materialize according to budgets and plans. Revenues actually received will be regularly compared to budgeted revenues and variances will be investigated. The City will follow a policy of collecting, on a timely basis, all fees, charges, taxes and other revenue properly due to the City. The City will follow an aggressive policy of collecting all delinquencies due to the City.

- B. **Property Tax Revenues** - Property shall be assessed at 100% of fair market value as appraised by the Kaufman County Appraisal District. Reappraisal and assessment shall be done regularly as required by state law. Ad Valorem tax payments are collected by the Kaufman County Tax Assessor/Collector on behalf of the City. A 95% collection rate will serve as a goal for tax collections. Delinquent taxes will be pursued by a private attorney, and a penalty assessed to compensate the attorney as allowed by state law, and in accordance with the attorney's contract.

The City shall strive to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees and economic development. The City shall also strive to minimize tax rate increases.

- C. **Water and Wastewater Rates and Enterprise Fund User Fees** – Utility rates and Enterprise Fund user fees shall be set at levels sufficient to cover operating expenditures, meet debt obligations, provide additional funding for capital improvements and provide adequate levels of working capital and debt coverage. Water and sewer rates shall be comprised of a fixed and variable portion. Emphasis shall be made to not place undue reliance on the variable portion of the rate structure. It is the goal of the City to reduce or eliminate all forms of subsidization to the Enterprise Fund from the General Fund.
- D. **Fees for Service** - The general policy on fees for service shall be that the City will seek to maximize fee revenue from services whenever feasible as opposed to relying on tax revenue to support services. For services that benefit specific users, where possible the City shall establish and collect fees to recover the cost of those services. Where feasible and desirable, the City shall seek to recover full direct and indirect costs. City staff shall review user fees on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure and to recommend adjustments where necessary.
- E. **Interest Income** – It is the City's policy to maximize interest income by investing idle cash as allowed by state law and the *City of Kaufman Investment Policy*.

EXPENDITURE POLICY

- A. **Current Funding Basis** – The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of fund balance accumulated through prior year savings.
- B. **Avoidance of Operating Deficits** – The City shall take timely corrective action if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end.

- C. **Maintenance of Capital Assets** – Within the resources available each fiscal year, the City shall 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.
- D. **Purchasing** – The City shall make every effort to maximize any discounts offered by creditors/vendors when it is deemed cost effective. Vendors with balances due the City will have payments due the vendor offset against the amount due the City. The City shall follow state law concerning the amount of the purchase requiring formal bidding procedures and approval by the City Council. For purchases where competitive bidding is not required, the City shall seek to obtain the most favorable terms and pricing possible. Every effort will be made to include minority business enterprises in the bidding process.
- E. **Level of Control** – Expenditures may not legally exceed budgeted appropriations at the fund level as designated by the City's Home Rule Charter. Department Heads are responsible for monitoring their respective budgets and complying with general purchasing policies established by the Finance Department and approved by the City Manager.
- F. **Payments for Goods and Services** – All invoices will be paid within 30 days of receipt.

ACCOUNTING POLICIES

- A. **Accounting Practices** – The City shall comply with prevailing local, state and federal regulations. Its accounting practices and financial reporting shall conform to generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA).
- B. **Capital Assets** – Capital Assets, which include land, buildings, equipment , and improvements, purchased or acquired, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and proprietary fund financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30-50 years
Buildings	50 years
Building Improvements	10 years
Machinery & Equipment	5-15 years

- C. **Internal Controls** – Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements. Internal controls are designed to provide reasonable, but not absolute, 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.
- D. **Independent Audit** – As required by City Charter, the City Council shall select an independent firm of certified public accountant(s) to perform an annual audit of all operations. The firm must demonstrate that they have the breadth and depth of staff to conduct the City's audit in accordance with generally accepted auditing standards, and contractual requirements. The auditors are accountable to the City Council, although their efforts are coordinated through the City Manager and staff. The City will continue to participate in the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting program.

RISK MANAGEMENT

- A. **Programs** -The City shall utilize a safety program, an employee health program and a risk management program to prevent and/or reduce the financial impact on the City from claims and losses.
- B. **Reduced Liability** - Transfer of liability for claims will be utilized where appropriate via transfer to other entities through insurance and/or by contract. Liabilities will be self-insured where financially feasible.

INTERGOVERNMENTAL RELATIONS

- A. **Inter-local Cooperation in Delivering Services** – In order to promote the effective and efficient delivery of services, the City shall work with other local jurisdictions to share on an equitable basis the costs of services, to share facilities and to develop joint programs to improve service to its citizens.
- B. **Legislative Program** – The City shall cooperate with other jurisdictions to actively oppose any state or federal regulation or proposal that mandates additional City programs or services and does not provide the funding for implementation.

CITY OF KAUFMAN INVESTMENT POLICY

I. POLICY

It is the policy of the City of Kaufman (City) that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines and to the maximum extent possible, at the highest rates obtainable at the time of investment.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a viable and material source of revenue to City funds. The City's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

II. PURPOSE

The purpose of this investment policy is to comply with Public Funds Investment Act, Chapter 2256, Texas Local Government Code which requires each city to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City of Kaufman funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the City of Kaufman. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Enterprise Funds
5. Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately
6. Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
7. Any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

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This policy shall also govern the investment of the financial assets of the Fire Pension Fund of the City of Kaufman, which is a separate legal and accounting entity, and is not accounted for in the City's CAFR.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds.

This policy shall not govern funds that are managed under separate investment programs. Such funds currently include the City's participation in the Texas Municipal Retirement System and any deferred compensation programs administered for the benefit of the city by outside agencies. The City shall maintain responsibility for these funds only as required by State Law and the City Charter.

IV. PRUDENCE

The standard of prudence to be applied by the investment officer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. This rule states that "Investments shall be made with judgment and care, under circumstances then prevailing, 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 capital as well as the probable income to be derived."

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written investment policy of the City.

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

V. INVESTMENT OBJECTIVES

The City of Kaufman shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust and yield, expressed as optimization of interest earnings.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

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The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earnings on short-term investment of pooled idle cash.

Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- ❑ Credit Risk – The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities
 - Pre-qualifying the financial institutions and broker/dealers with which the City will do business
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- ❑ Interest Rate Risk – the City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
 - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity
 - Investing operating funds primarily in certificates of deposits, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
 - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools that offer same-day liquidity.

Yield (Optimization of Interest Earnings)

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment

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risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

VI. RESPONSIBILITY AND CONTROL

Delegation of Authority

Management responsibility for the Investment Program is assigned to the City Manager, with designation by him, as provided for in the City's Home Rule Charter. The Director of Finance is hereby designated as the primary Investment Officer and is responsible for establishing a system of controls to regulate the activities of investment.

Investment procedures should include reference to the following: safekeeping agreements, repurchase agreements, wire transfer agreements, collateral agreements, depository service contracts and agreements, broker/dealer selection criteria, and security bidding and purchase processes. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

No person may engage in an investment transaction or the management of funds except as provided under the terms of this Investment Policy as approved by the City Council. The Director of Finance shall be responsible for routine authorization and accounting of investments, with approvals by either the City Manager or Assistant City Manager. The Director of Finance shall establish a system of controls to regulate the activities of subordinates. The investment authority granted to the investing officers is effective until rescinded by the governing body.

The City Council shall designate by resolution one or more officers or employees as members of the Investment Advisory Committee assigned to review investment policies and procedures, investment strategies, and investment performance. Members of the committee shall demonstrate knowledge and expertise in the area of finance, investments, or cash management. The Committee shall elect the Chairman, and meetings shall be called as needed.

Quality and Capability of Investment Management

The City shall provide periodic training in investments for the designated investment officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure the quality and capability of investment management in compliance with the Public Funds Investment Act.

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Training Requirement

The Director of Finance and any other designated investment officers must attend ten (10) hours of training not less than once in a two-year period that begins on the first day of the City's current fiscal year and ends two consecutive fiscal years after that date. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a business organization with whom the City of Kaufman may engage in an investment transaction. The Director of Finance and any other designated investment officers shall also comply with any continuing education or retraining requirement prescribed by law. Thereafter, ten hours of training must be completed every two years.

Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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, the Director of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points.

- Control of collusion.
- Separation of transactions authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third party custodian.

Indemnification

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

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Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

VII. SUITABLE AND AUTHORIZED INVESTMENTS

Portfolio Management

The City currently has a “buy and hold” portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated before they mature if market conditions present an opportunity for the City to benefit from the trade. Investments may be liquidated for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- An investment swap would improve the quality, yield, or target duration in the portfolio.
- Cash flow needs of the portfolio require that the investment be liquidated.

Investments

Assets of the City of Kaufman may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended.

CITY OF KAUFMAN INVESTMENT POLICY

I. Authorized

1. Obligations of the United States of America, its agencies and instrumentalities, rated not less than A or its equivalent by at least one nationally recognized investment rating firm.
2. Certificates of Deposit issued by a bank organized under Texas law, the laws of another state, or federal law, that has its main office or branch office in Texas, or by a savings and loan association or a savings bank organized under Texas, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner and amount provided by law for deposits of the City.
3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 110 percent at the time funds are disbursed.
4. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) maintain a net asset value of \$1 for each share and 4) rated AAA by at least one nationally recognized rating service.
5. Local government investment pools which 1) meet the requirements of Chapter 2256.019 of the Public Funds Investment Act 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service and 3) are authorized by resolution or ordinance by the City Council.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. The City is not required to liquidate investments that were authorized investments at the time of purchase. Credit rating monitoring procedures shall be performed on a monthly basis; liquidation of investments may be required under provisions of the PFIA should rating drop below minimum requirement.

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II. Not Authorized

Under no circumstances shall investments be made in interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, or in collateralized mortgage obligations with an inverse floating interest rate or a final maturity date of over 2 years. Neither shall investments be made in obligations that are secured by these prohibited investments.

III. Certification

Investments shall only be made with business organizations that have provided the City with a written instrument, executed by a qualified representative of the firm, acknowledging that the organization has:

- Received and reviewed the City's Investment Policy, and
- Implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

VIII. INVESTMENT PARAMETERS

Maximum Maturities

The longer the maturity of investments is, the greater its price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The City attempts to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than twenty-four (24) months from the date of purchase. Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

Each Fund portfolio will have a weighted average maturity of one (1) year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

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Diversification

The City of Kaufman recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposits that are fully insured and collateralized in accordance with state and federal law),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following maximum limits, by instrument, are established for the City's total portfolio:

1. U.S. Treasury Securities	100%
2. Agencies and Instrumentalities	80%
3. Certificates of Deposit	50%
4. Repurchase Agreements	50%
5. Money Market Mutual Funds	50%
6. Authorized Pools	100%

VIII. INVESTMENT STRATEGY BY FUND TYPE

Operating Funds and Commingled Funds Containing Operating Funds

Operating funds will have as their primary objective to support the goals of the investment policy on these funds for safety and assure that cash flows are matched with adequate liquidity while obtaining reasonable market yields. This will be accomplished by purchasing quality, short-term securities, liquid-securities in a laddered structure, or utilizing an investment pool. The dollar-weighted average will be 180 days or less to accomplish this goal. The portfolio shall be diversified to protect against credit and market risk in any one sector. Diversification requirements can be fully met through use of an authorized pool. Operating fund reserves or fund balances shall only be invested in securities that have a maximum maturity of 24 months or less, except when otherwise approved by council action.

Debt Service

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Investment strategies for debt service funds shall have as the primary objective the guarantee of investment liquidity adequate to cover the debt service obligation on the required payment date. Investments will be made that will promise safety of principal and liquidity first and yield and diversification second. Securities purchased will not have maturity dates that exceed the next debt service payment date until the next debt service payment is fully funded, and in no instance will have a maximum weighted average maturity of six months.

Debt Service Reserves

Investments will have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund within the limits set forth by the bond ordinance or debt covenants specific to each individual bond issue.

Since this is one of the highest priorities of the City, securities will be chosen with the highest priorities of safety. Securities will be chosen for their maturity dates and not require the highest degree of diversification.

Securities purchased shall not have a stated final maturity date which exceeds the next debt service payment date until fully funded and shall be chosen secondarily with regard to yield and diversification.

Reserve funds will have the same primary objective but shall be further controlled with the purchase of securities carrying the highest yield available, within the desired maturity and quality range with a maximum weighted average maturity of six months.

Capital Project and Special Purpose Funds

These funds will have as their primary objective to ensure that anticipated cash outflows are matched with adequate investment liquidity. No funds will be invested longer than the related anticipated expenditures.

These portfolios should have liquid securities to allow for unanticipated project expenditures or accelerated project outlays due to a better than expected or changed construction schedule. The dollar weighted average life of the portfolio should match the weighted expenditures of the liabilities. Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations.

The City will have an arbitrage rebate calculation performed annually to determine the income, if any, that has exceeded the arbitrage yield of the bonds. Any positive arbitrage income will be averaged over a five-year period and rebated to the Federal Government according to arbitrage regulations. A secondary objective of these funds is to achieve a yield equal to or greater than the arbitrage yield of the applicable bond.

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X. SELECTION OF BANKS AND DEALERS

Depository

At least every five years, as allowed by State Law, a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The term of said banking services shall be for a maximum of an initial three (3) year term, with options to renew for either one (1) two-year term, or two (2) one-year terms. The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state and local laws.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP and the investment policy.
- Complete response to all required items on the bid form
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

Authorized Brokers/Dealers

Authorized firms may include primary dealers, or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (Uniform Net Capital Rule.) and qualified depositories.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- Audited financial statements
- Completed broker/dealer questionnaire
- Certification of having read and understood the City's investment policy and agreeing to comply with the policy

The governing body must annually review, revise and adopt a list of qualified broker/dealers and financial institutions authorized to engage in investment transactions with the City.

Competitive Bids

It is the policy of the City to require competitive bidding for any investment transaction, other than the investment of funds in a) an authorized pool, b) certificate of deposit

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through the depository bank, c) transactions with money market mutual funds, or d) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution. The Director of Finance shall develop and maintain procedures for ensuring a competition in the investment of the City's funds. Investment transactions may be done orally, but followed by electronic or written confirmation. Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in safekeeping at a third party custodial institution with a safekeeping receipt being sent to the City.

Delivery vs. Payment

Securities shall be purchased using the **delivery vs. payment** method with the exception of local government investment pools and mutual fund transactions. Funds shall not be wired or paid until verification has been made that the Trustee received the correct security. The security shall be held in the name of the City or held on behalf of the City. The Trustee'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.

XI. SAFEKEEPING OF SECURITIES

Safekeeping Agreement

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits.

Safekeeping

All securities owned by the City shall be held by its safekeeping agent, except the collateral for certificates of deposits in banks. The collateral for certificates of deposit in banks will be registered in the City's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the City's name, or a third party bank in the City's name, at the City's discretion. Original safekeeping receipts shall be obtained.

Collateralization

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 105% of market

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or par, whichever is lower. The market value of collateral will always equal or exceed the principal plus accrued interest of deposits at financial institutions. At its discretion, the City may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The Director of Finance is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. Collateral shall be reviewed at least weekly to assure that the market value of the pledged securities is adequate. Financial institutions, with which the City invests or maintains other deposits, shall provide monthly, and as requested by the Investment Officer, a listing of the collateral pledged to the City, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient by type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating.

Collateral Defined

The City of Kaufman shall accept only the following securities as collateral:

- FDIC insurance coverage.
- A bond, certificate of indebtedness, including Mortgage-Backed Agency Securities guaranteed or insured by the United States or its Agencies and Instrumentalities, Treasury Notes of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
- Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- 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 two (2) years or less.
- Surety Bonds that meet the requirements of the Public Funds Investment Act; or
- Federal Home Loan Bank Letters of Credit as defined by Chapter 116, Subchapter C of the Local Government Code and by Chapter 726, Acts of the 67th Legislature, Regular Session, 1981 (Article 2529b-1, Vernon's Texas Civil Statutes).

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Subject to Audit

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

XII. PERFORMANCE

Performance Standards

The City's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

Performance Benchmark

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City attempts to optimized interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value of those securities to determine portfolio performance during that period of time. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

XIII. REPORTING

Methods

The Investment Officer shall prepare an investment report on no less than a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principals. This summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Manager and City Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period.

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- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- Additions and changes to the market value during the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- Listing of investments by maturity date.
- Fully accrued interest for the reporting period
- The percentage of the total portfolio which each type of investment represents.
- Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body.

Marking to Market

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

XIII. INVESTMENT POLICY ADOPTION

The City of Kaufman investment policy shall be adopted by resolution of the City Council. It is the City's intent to comply with state laws and regulations. The City's investments policies shall be subject to revisions to stay current with changing laws, regulations, and needs of the City. The policy shall be reviewed annually by the City Council and any changes or modifications must be approved by the City Council.

City of Kaufman General Guidelines for Purchasing

1. **All** purchases of goods or services must be appropriate for City use and be the best possible value for the public dollar.
2. Purchases of less than **\$250** do not require prior approval from the Finance Department. Department heads are responsible for compliance with Item 1 above. Splitting of invoices to come under \$250 cap is strictly prohibited; department heads are responsible for training and education of staff on these purchasing guidelines.
3. For purchases greater than \$250, appropriate paperwork, a purchase order form, must be completed and submitted for administrative approval **BEFORE** purchases and/or commitments are made. Purchase orders are for future purchases.
4. Purchase order requests greater than \$3000 require price quotes from three or more vendors. If three prices are not available, note this on the purchase order with an explanation to avoid delays in approval. Supporting documentation for all quotes must be attached to the purchase order form. When using a government procurement service such as BuyBoard or HGACBuy, three quotes are not required, but are recommended. Additionally, dual approval by the City Manager/designee and the Finance Director is required. If the Finance Director is not available, the ACM or City Secretary must approve.
5. Vendor information should be complete, including physical and 'remit to' address, contact name, phone number, website, email, and the total expected purchase price. If using a vendor for the first time, IRS form W-9 is required; the vendor must submit the W-9 before payment processing.
6. Emergency purchase order numbers will only be issued for true emergencies. A true emergency is defined as "life threatening" or "a major disruption in services to our residents". Emergency requests less than \$3000 may be approved by the purchasing department. Emergency requests of \$3000 or more require prior approval from the City Manager, City Secretary, ACM, or Finance Director. (Paperwork for appropriate emergency purchases made outside of normal working hours such as weekends, evenings, and holidays may be submitted on the next regular business day.)
7. Allow ample time for approval when submitting purchase requisitions. Occasionally additional information is needed which may delay approval.
8. Invoices, packing slips, receipts, etc. with approval coding and signatures, should be forwarded promptly to the Finance Department (purchasing or accounts payable) for payment processing.
9. Invoices without supporting documentation (packing slip, etc.) that goods or services have been received must be initialed by the department head or supervisor to confirm receipt of goods or services.
10. Purchase orders for contractual items are not required (ex. Professional services). In addition, see attached list of approved exceptions that do not require a purchase order form.
11. Purchase requisitions for training & schools should include adequate information to determine total cost to the city. Information about lodging, meals and other travel expenses must first be submitted on the travel advance form and again on reimbursement form upon return; see travel form for list of supporting documentation requirements.
12. Formal bids must be obtained for expenditures \$50,000 and above, and require City Council approval. All departments are encouraged to plan their purchases a minimum of six weeks in advance to allow time for the processing of complete bid specifications and meeting the legal requirement for advertisements. Formal bids must be advertised in the City's designated local newspaper for two consecutive weeks and may be opened the following week.

13. Credit card purchases do not require a purchase order. However, a credit card pre approval form must be submitted and approved by finance before obtaining a credit card from Administration.
14. For purchasing matters not addressed in this policy, first consult with the Finance Director, City Manager or City Secretary/ACM.