



FISCAL PRINCIPLES & POLICIES

Policy Purpose

The City of Canyon has an important responsibility to its citizens to carefully account for public funds, to manage municipal finances wisely, to plan for the adequate funding of services desired by the public and to prepare for the future.

The overriding goal of the Fiscal Principles & Policies is to enable the City to maintain a long-term stable and positive financial condition. The priorities of the City's fiscal management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Fiscal Policies is to provide guidelines for the Director of Finance in planning and directing the City's day to day financial affairs and in developing recommendations to the City Manager and City Commission. 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.

Review of Policies – These policies will be reviewed administratively by the Finance Director and City Manager and will be presented annually to the City Commission for approval of any significant changes.

Accounting and Financial Reporting

Accounting – The Fiscal Administrator is the City's Director of Finance and is responsible for establishing and maintaining the chart of accounts and for properly recording financial transactions.

Accounts Receivable – These asset accounts reflect amounts owed to the City of Canyon from citizens, companies, or other governmental entities. All delinquent accounts will be pursued.

- Delinquent active utility accounts: Services will be discontinued in accordance with the disconnect policy as defined in the Code of Ordinances until payment is received. In rare instances payment plans can be granted.
- Delinquent inactive utility accounts: Information on customers will be submitted to Texas Revenue Recovery Association for collections on qualifying accounts.

- Any applicant for utility services must pay delinquent charges on previous accounts before services will be connected. In rare instances payment plans can be granted.
- Miscellaneous charges (street paving, property lease, etc), if not added to the utility account, will be billed on a monthly basis.
- Returned checks will be collected immediately without any grace period. If the returned check is for a utility account and the customer does not resolve the issue immediately, the utility services will be disconnected until the check amount and service charge have been paid by cash or money order. Any unpaid returned checks will be turned over to the County Attorney for collection.
- Delinquent court charges will be pursued by the issuance of warrants and/or by collection through a collection agency.
- The City of Canyon will review delinquent accounts and write off accounts deemed uncollectible after 3 years on an annual basis.

Internal Auditing

An internal audit program will be established and maintained by the Director of Finance to ensure compliance with City policies and procedures and to minimize the potential for fraud. This program will randomly select various employees, transactions or inventory to review. Activities to be audited include, but are not limited to, City credit card accounts, daily cash receipts, time sheet entry, travel expenses and transfers of funds or goods. All discrepancies will be identified, and the employee's Department Head will be notified. The City Manager will also be notified depending on the significance of the infraction. The City Manager may perform any of the internal auditing functions at his/her discretion.

External Financial Reporting

The City will continue working to develop its accounting system in order to prepare and publish a comprehensive annual financial report (CAFR). The CAFR will be prepared in accordance with generally accepted accounting principles. The CAFR will be published and presented to the City Commission within 180 days after the end of the fiscal year. In case of a delay in reporting, the Director of Finance will inform the City Manager, and the City Manager will inform the City Commission of the delay and the reasons therefore.

Internal Financial Reporting

The Finance Department will prepare internal financial reports sufficient for management to plan, monitor, and control the City's financial affairs. Statements of Revenues and Expenditures, Actual and Budget, will be provided to Department Heads on a monthly basis to aid them in monitoring compliance with budgetary restraints. The City Manager and City Commission will be provided with monthly financial statements including Balance Sheet and Statement of Revenues and Expenditures for each major fund, Schedule of Cash Position and Required Reserve, and Schedule of Secured Deposits as of the previous calendar month-end for approval at the first regular City Commission meeting following the end of the month.

External Auditing

- The City of Canyon will engage an outside independent accounting firm (auditors) to perform an audit of the City's financial statements annually. The auditors must be a Certified Public Accounting firm of national accreditation and reputation, must specialize in audits of local governmental entities and must demonstrate that they have experienced staff available to conduct the City's audit in accordance with generally accepted auditing standards and contractual requirements. The auditor's report on the City's financial statements will be completed within 180 days of the City's fiscal year end, and the auditor's management letter will be presented to the City staff accordingly. A draft copy of the auditors' management letter will be provided by the auditor and discussed with management prior to the date of issuance if any materially significant internal control weaknesses are discovered.
- The Auditors are accountable to the City Commission and will have access to direct communication with the City Commission if the City staff is unresponsive to auditor recommendations or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.
- Auditor Rotation – The City of Canyon will not require auditor rotation.

Internal Control

Objective – To provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or dispositions, and recorded with material accuracy. It is the intent of the City of Canyon to maintain an environment conducive to good internal control at all times.

Written Procedures – The Director of Finance is responsible for developing Citywide guidelines on accounting, cash handling, and other financial matters, in written form whenever feasible. Such guidelines shall address procedures for daily close and reconciliation procedures and preparation of the department's daily bank deposit, if applicable. The Finance Office will provide and maintain a Cash Handling Training Manual to assist department employees who handle cash with written guidelines. The Finance Department will assist Department Managers as needed in tailoring these guidelines into detailed written procedures to fit each department's specific requirements.

Department Managers' Responsibility – Each Department Manager is responsible to ensure that good internal control is maintained throughout the department, that all Finance Department guidelines on accounting and internal control are implemented, and that any recommendations made by the City's external independent auditor related to internal control within the department are addressed and corrected appropriately.

Separation of Duties and Transaction Verification – In handling any kind of assets, separation of duties will provide verification of transactions by more than one person, indicated by the signature or initials of each individual.

Safeguarding of Cash – During regular business hours any cash or cash equivalent is to be receipted into the accounting system immediately and without delay and related documentation stored in the designated places. In rare exceptions, receipts may be stored in the vault for further processing. Receipts from drop boxes or off-site locations will be processed within the same day they are received at City Hall. During hours City Hall is closed any cash or cash equivalents are to be stored in the vault and the vault is to be locked. The Cash Handling Training Manual mentioned in Written Procedures above provides more specific guidelines with regard to safeguarding of cash.

Operating Budget

Preparation - The City’s “operating budget” is the City’s annual financial operating plan. It comprises governmental and enterprise funds, including the Debt Service Fund. The budget is prepared by the City Manager, or an appointee, with the cooperation of all City Departments.

Planning - The budget process will be coordinated so as to identify major policy issues for City Commission consideration several months prior to the budget approval date so that proper decision analysis can be made.

Balanced Budget – The operating budget will be balanced with current revenues and resources greater than or equal to current expenditures/expenses.

Adoption Process – Pursuant to the City of Canyon Home Rule Charter, Article VIII, Sections 8.01 through 8.04, a proposed budget will be presented by the City Manager to the City Commission at least 60 days before the beginning of each budget year. Upon approval by the City Commission, the budget shall be filed with the City Clerk and be made available to the public. The City Manager and the City Commission shall comply with all aspects of state law, City Charter and shall coordinate its consideration and adoption of the budget in a manner that allows full compliance with the provisions of the Tax Code and state regulations established for the setting of ad valorem tax rates based upon the adopted budget and known popularly as Truth in Taxation, including all required notices, hearings and meeting of deadlines.

Amendment Process – Budget Amendments may be made by ordinance as necessary.

Capital Outlay and Improvements

Preparation – The City’s Capital Outlay items will be included in each Department’s budget together with the operating budget. The fiscal impact of capital improvements on the operating budget will be integrated and monitored.

Facilities – Facilities are Capital Improvements and include any structures on properties owned by the City, the land upon which the facility is situated for the provision of City services, and the initial furniture, fixtures, equipment and apparatus necessary to put the facility into service.

Facilities include, but are not limited to the following: administrative offices, golf course, parks, service buildings, storage yards, recreation areas, fire stations, water and sewer related structures and golf course club house and maintenance structures.

Infrastructure – Infrastructure includes permanently installed structures, which are placed underground, at grade or above grade, and which form the basis for the provision of City services. Included are streets and alley ways, water and sewer lines with related equipment, drainage channels, golf course and park irrigation, and storm sewers. Department Heads are responsible for compiling a maintenance schedule for infrastructure assets and for making requests for budget appropriations for such maintenance.

Machinery, Equipment and other Assets – This category includes fixed or moveable tangible assets that are used for operations of the City and will benefit the City for more than three years (3), including, but are not limited to, rolling stock and tools. They will be replaced on a rotation schedule according to the estimated life of the asset. Department Heads are responsible for maintaining the rotation schedule and making requests for budget appropriations in the capital outlay category. The City maintains a Capital Equipment Fund for planning and accounting for capital equipment replacement.

Control – All capital expenditures must be appropriated in the budget, either for one-time purchase expenditure, or by funding through the appropriate internal service funds. The availability of resources for such appropriations must be verified before a capital expenditure contract is executed. The City has implemented the use of internal service funds, Capital Equipment Fund and Capital Improvement Project Funds, to provide for the planning, funding and accounting for the City's capital assets.

Alternate Resources – Where applicable, assessments, impact fees, pro-rata charges, drainage fees or other user-based fees should be used to fund capital projects which have a primary benefit to specified property owners. State and Federal grant opportunities will be explored when available. Large projects to improve infrastructure can be funded by debt when no other funding opportunities are available.

Debt Financing – Debt will be financed in accordance to the Canyon Home Rule Charter, Article IX, Sections 9.01 through 9.07, and applicable State Laws. 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 equal or greater than the average life of the debt issue. The exceptions to this requirement are the traditional costs of marketing and issuing debt, capitalized labor for design and construction of capital projects, and small component parts which are attached to major equipment purchases.

Infrastructure Maintenance – The City recognizes that deferred infrastructure maintenance (street, water and sewer lines, etc.) increases future capital costs multi-fold. Therefore, a portion of the General and Water/Sewer Fund budget will be set aside each year to maintain the quality of streets and water/sewer lines and equipment. The amount will be established annually so that repairs will be made according to the established rotation schedule.

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 and control the capital budget as authorized by the City Manager.

Revenue Management

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.

Certainty – An understanding of the revenue source increases the reliability of the revenue system. The City will try to understand its revenue sources, and enact consistent collection policies so that assurance can be provided that the revenue base will materialize according to plans and budgets.

Equity – The City will seek to minimize forms of subsidization between entities, funds, services, utilities, and customers. However, it is recognized that public policy decisions may lead to subsidies in certain circumstances.

Administration – The benefits of a revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed periodically for cost effectiveness as a part of the indirect cost by cost of services analysis. Where appropriate, the City will use Revenue Recovery Associations or collection agencies in order to reduce administrative costs of collection and write-offs.

Revenue Adequacy – The City will require that there be a balance in the revenue system. The revenue base will have the characteristics of fairness and neutrality as it applies to cost of services, willingness to pay, and ability to pay.

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 review.

Diversification and Stability – In order to protect the government from fluctuations in a revenue source due to change in state law, fluctuations in the economy, and variations in weather (in the case of water and wastewater), a diversified revenue system will be maintained which will contribute to stability of income.

Nonrecurring Revenues – One-time revenues will not be used for ongoing operations. Nonrecurring revenues will be used only for nonrecurring expenditures, unless specified by the entity providing the nonrecurring funds. Care will be taken not to use these revenues for budget balancing purposes.

Property Tax Revenues –

1. **Process.** Property shall be assessed at 100% of the fair market value as appraised by the Potter Randall Appraisal Districts. Reappraisal and reassessment shall be done regularly as required by State Law. The City has contracted with Randall County Tax Assessor-Collector for the collection of property taxes. A 98% collection rate will serve as a goal for tax collections, with a delinquency rate of 2% or less. All delinquent taxes will be aggressively pursued through collection by a collection agency or attorney, as contracted by the Randall County Tax Assessor-Collector.
2. **Limited Reliance on Property Tax.** The City will continue to balance reliance on property tax by seeking additional revenue sources (sales tax and service charges) and attempting to expand and diversify the City's tax base.

Exemptions – The City of Canyon currently does not have any local exemptions. The City does adhere to the 65 and older tax freeze. New allowances will be determined by Commission on a case-by case basis. Tax abatements should be used selectively and only when a high probability of economic return in excess of the forgone revenue exists.

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.

Proprietary – Proprietary funds will pay the General Fund for direct services rendered (Legal, Finance, Computer Services, etc.).

Franchise Agreements – The City will monitor the status of existing financial agreements and take necessary actions to negotiate new agreements as they near expiration or as they need revisions to best serve the citizens of Canyon.

General and Administrative Charges – A method will be maintained whereby the General Fund may impose a charge to the proprietary, fiduciary and/or other funds for general and administrative services (indirect cost) performed on the fund's behalf.

Utility Rates – The City will review and adopt utility rates that will generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital needs. This policy does not preclude drawing down cash balances to finance current operations. However, it is desired that any extra cash balance be used to fund operations and capital projects City-wide.

Interest Income – Interest earned from investment of available moneys will be distributed to each fund respective to the balance generating the interest of that fund.

Revenue Monitoring – Revenues received from external collections (i.e. Sales Tax) will be regularly monitored, comparing to budget or reports obtained from external sources, and variances

will be investigated. Reports on trends will be provided for monitoring to the City Manager and City Commission monthly.

Expenditure Control

Appropriations – The level of budgetary control is the department level in the General, Water Works/Sewer System, and Golf Funds, and the fund level in all other funds. When budget amendments are necessary, approval by City Commission is necessary. The City Manager has the authority to make line-item transfers within the Fund. Refer to the City Charter for Budget Procedures.

Central Control – Significant budgetary savings in any department will be centrally controlled and may not be spent by the department without specific City Manager authorization.

Purchasing – All purchases shall be in accordance with the City’s purchasing procedures. Purchases and any contracts exceeding the limit established by state law (\$50,000) will conform to a formal bidding process. Recommendations on purchases and contracts that are subject to the bidding process or proposal process will be made to the City Commission for approval.

Procurement Card Program– The City uses a procurement card program for low-cost purchases made at the department level. The program is designed to operate within the City’s purchasing policies. The program is operated following the guidelines contained in the Procurement Card Policies and Procedures Manual.

Prompt Payment – All invoices will be paid within 30 days of receipt in accordance with the prompt payment requirements of State law. Procedures will be used to take advantages of all purchase discounts where considered cost effective.

Equipment Financing – Unless a direct benefit is perceived to be derived from financing an equipment purchase, the City strives to avoid financed purchases of equipment.

Asset Management

Investments – The City’s investment practices will be conducted in accordance with the Investment Policy approved by the City Commission.

Cash Management – The City’s cash flow will be managed to maximize the cash invested, while maintaining available cash to pay claims incurred from ongoing operations.

Investment Performance – The City Commission will be provided with a quarterly report prepared by the Finance Director and approved by the City Manager on this investment performance and balances, in accordance with the Public Funds Investment Act.

Fixed Assets and Inventory – These assets will be reasonably safeguarded, properly accounted for and prudently insured. Each Department Head is responsible for the upkeep, accounting and inventory control for assets in that department.

Financial Impact

Risk Management Program – The City will aggressively pursue every opportunity to provide for the public’s and City employee’s safety and to manage its risks. All reasonable options will be investigated to minimize losses. Such options may include risk prevention programs, risk transfer and insurance coverage.

Compensated Absences – Benefits for full-time employees include paid vacation, sick and comp leave in accordance with the Personnel Policy Handbook. Available and accrued absences are paid out of the budgeted operating salary account for the proper department.

Equipment Replacement – Each Department Manager is responsible for maintaining the listing of all major rolling vehicle stock, their estimated life expectancy and anticipated replacement date, together with future year projections. Based on these factors, internal lease payments will be made annually to the City’s Capital Equipment Fund (internal service fund) in order to build reserves for the replacement of equipment. Equipment purchases will be staggered over the years and Department Heads are responsible for making requests in the budget annually for replacement.

No Operating Deficits – Current expenditures will be paid with current revenues. Deferrals and Short-term loans will be avoided as budget balancing techniques. Reserves will be used only for emergency or non-recurring expenditures, except when the unassigned fund balance can be reduced because the level exceeds minimums set by the City’s Fund Balance and Reserve Policy.

Fund Balance

Objective – The City has implemented a Comprehensive Fund Balance and Reserve Policy approved by the City Commission. The policy provides for maintenance of an adequate fund balance and specifies the means and measurements for doing so.

Debt Management

Short-Term Debt – It is the policy of the City to avoid short-term debt whenever possible. For this purpose, short-term is considered less twelve months or less. Purchases are preferred over leasing equipment. Should the need for short-term debt arise, every attempt will be made to retire the debt by fiscal year end.

Long-Term Debt – Long-term debt will not be used for operating purposes, and the life of a bond issuance will not exceed the useful life of the project financed.

Self-Supporting Debt- When appropriate, self-supporting revenues will pay debt service in lieu of tax revenue.

Rating – Full disclosure of operations will be made to the bond rating agencies. The City staff, with the assistance of fiscal advisors or bond counsel, will prepare the necessary disclosures for presentation to the rating agencies.

Federal Requirements – The City will maintain procedures to comply with arbitrage rebate and other Federal requirements as necessary.

Debt Burden – The Debt Burden should be limited and within the financial means of the City to service adequately.

Bond Issuance Advisory Fees and Costs – The City will be actively involved in the selection of all financial advisors, underwriters, paying agents, and bond counsel. The City shall evaluate the merits of professional advisors and consultants as well as the kinds of services and fee structures available from independent financial advisors, investment banking firms, and commercial banks. The City will carefully itemize and scrutinize all costs associated with the issuance of bonds.

Staffing and Training

Adequate Staffing – Staffing levels will be adequate for the fiscal functions of the City to function effectively. Overtime shall be used only to address temporary or seasonal demands that require excessive hours. Workload management alternatives, including technology, will be explored before adding staff.

Seasonal Staff – Summer help will be utilized on a part-time basis to accommodate seasonal fluctuations in the demand for work. Seasonal work includes swimming pool staffing, mowing, short-term projects, and regular work assignments to free up full-time staff for seasonal projects.

Training – The City will support the continuing of education efforts of all staff including the investment in time, travel and materials for maintaining a current perspective concerning financial and technical issues, certifications and continuing education as required or desired for a position. 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.

Awards – 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, or personnel.

Approval by City Commission

Effective Date – This policy will become effective on the date following the initial approval by City Commission.

Annual Review – This policy will be reviewed annually by the Director of Finance and the City Manager and changes must be approved by City Commission.

Appendix A Listing of all City of Canyon Fiscal and Financial Policies

- 1) Comprehensive Fund Balance and Reserve Policy
- 2) Canyon Investment Policy (PFIA)
- 3) Procurement Card Policies and Procedures Manual
- 4) Cash Handling Training Manual
- 5) Utility Payment Policy
- 6) Accounting Processes and Procedures