

CITY OF FAIR OAKS RANCH FINANCIAL MANAGEMENT POLICY

64.0	Adopt Investment Policy	October 1995
64.1	Adopt Investment Policy	January 1996
64.2	Adopt Investment Policy	October 1998
64.3	Reaffirm Investment Policy	December 2004
64.4	Amend Investment Policy	February 2006
64.5	Amend Investment Policy	April 2007
64.6	Adopt Financial/Investment/Capitalization Policy	March 2008
64.7	Amend Financial Policy to adopt Identity Theft Prevention Program	May 2009
64.8	Amend Investment Policy	June 2009
R2011-12	Amend Financial Policy to adopt GASB54 Standards	August 2011
R2011-13	Amend Financial Policy and Reaffirm Investment Policy	August 2011
R2012-09	Reaffirm Investment Policy	September 2012
R2013-11	Amend Financial Policy and Reaffirm Investment Policy	September 2013
R2014-14	Reaffirm Investment Policy	September 2014
R2015-18	Repeal Resolution 64.6 and all subsequent resolutions Adopt Financial Management Policy Reaffirm Investment Policy	October 15, 2015
R2017-16	Reaffirm Investment Policy	September 21, 2017
R2018-11	Reaffirm Investment Policy	October 18, 2018
R2020-12	Reaffirm Investment Policy	September 15, 2020
R2021-19	Repeal Resolution 2015-18 and all subsequent resolutions Adopt Financial Management Policy Reaffirm Investment Policy	September 2, 2021
R2022-14	Reaffirm Investment Policy	September 15, 2022
R2023-21	Reaffirm Investment Policy	September 7, 2023
R2024-51	Amend Investment Policy	September 19, 2024
R2025-72	Amend Financial Management Policy and Reaffirm Investment Policy	October 16, 2025

TABLE OF CONTENTS

I.	Purpose Statement	4
A.	Purpose	
B.	Objectives	
C.	Scope	
II.	Accounting, Auditing, and Financial Reporting	4
A.	Accounting	
B.	Encumbrance Accounting Policy	
C.	Funds	
D.	External Auditing	
E.	External Auditors Responsible to City Council	
F.	External Auditing Rotation	
G.	Internal Controls Monitoring	
H.	Internal Financial Reporting	
I.	Annual Financial Disclosure	
J.	Compliance with Council Policy Statements	
III.	Internal Controls	6
A.	Written Procedures	
B.	Internal Controls	
C.	Department Heads Responsible	
IV.	Operating Budget	6
A.	Preparation	
B.	Basis of Budgeting	
C.	Balanced Budgets	
D.	Planning	
E.	Reporting	
F.	Control	
G.	Record Keeping	
H.	Adopted and Amended Budget	
I.	Budget Administration	
J.	Long-Term Financial Planning	
V.	Fund Balance/Reserves Policy	7
VI.	Capital Expenditures Program	8
A.	Preparation	
B.	Control	
C.	Alternate Resources	
D.	Debt Financing	
E.	Street Maintenance	
F.	Programmatic Replacement of Capital Assets	
VII.	Revenue Management	8
A.	Certainty	
B.	Equity	
C.	Administration	
D.	Revenue Adequacy	
E.	Cost/Benefit of Abatement	
F.	Non-Recurring Revenues	

G.	Property Tax Revenues	
H.	User-Based Fees	
I.	Impact Fees	
J.	Administrative Charges	
K.	Water/Wastewater Rates	
L.	Interest Income	
M.	Write-off of Uncollectible Receivables	
N.	Revenue Monitoring	
VIII.	Expenditure Control	10
A.	Appropriations	
B.	Purchases	
C.	Prompt Payment	
D.	Employee Reimbursements/Advances	
IX.	Asset Management	11
A.	Investments	
B.	Cash Management	
C.	Fixed Assets and Inventory	
D.	Capitalization of Capital Assets	
E.	Surplus Property and Asset Disposal	
X.	Financial Condition	11
A.	Operating Deficits	
B.	Risk Management Program	
C.	Enterprise Fund Self-Sufficiency	
XI.	Debt Management	12
XII.	Staffing and Training	12
A.	Adequate Staffing	
B.	Training	
XIII.	Grant Financial Management	12
A.	Grant Solicitation	
B.	Grant Acceptance	
C.	Responsibility	
XIV.	Donations	13
XV.	Annual Review	13

Appendices:

A.	Investment Policy	14
B.	Capitalization of Capital Assets Policy	24
C.	Identity Theft Prevention Program Policy	25
D.	Tax Exempt Finance Compliance Procedure	29
E.	Debt Management Policy	39
F.	Fund Balance and Reserve Policy	45

PURPOSE STATEMENT

A. PURPOSE - The Financial Management Policy consolidates the City's financial policies into a single document. These policies, adopted by City Council, provide guidance to City staff in financial planning and the internal management of the City's resources. The primary goal of the Financial Management Policy is to ensure the City can meet its current and future service needs, safeguard long-term financial stability, and maintain a positive financial condition, all while operating within the parameters of the Texas Local Government Code and the City Charter. The City's financial management is guided by the principles of integrity, prudent stewardship, planning, accountability, and full disclosure.

B. OBJECTIVES – In order to achieve its purpose, the Financial Management Policy has the following objectives:

1. To guide City Council and management policy decisions that have significant fiscal impact.
2. To employ balanced and fair revenue policies that provide adequate funding for services and service levels.
3. To maintain appropriate financial capacity for present and future needs.
4. To sustain sufficient reserves to maintain service levels during periods of economic downturn.
5. To promote sound financial management by providing accurate and timely information on the City's financial condition.
6. To protect the City's credit rating and provide adequate resources to meet the provisions of the City's debt obligations on all municipal debt.
7. To ensure the legal use of financial resources through an effective system of internal controls.

C. SCOPE - The scope of these policies span accounting, investments, auditing, financial reporting, internal controls, budgeting, capital program including capitalization, revenue and cash management, expenditure control, debt management, and identity theft prevention.

II. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

A. ACCOUNTING - The Finance Director is responsible for establishing the chart of accounts, and for properly recording financial transactions. The City operates on a fiscal year which begins on October 1 of each calendar year and ends on September 30 of the following calendar year. This fiscal year shall also be established as the accounting and budget year. The City finances will be accounted for in accordance with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). City financial documents, except interim financial reports, shall meet these standards. Interim financial reports are on a cash basis and will be reported as budgeted.

B. ENCUMBRANCE ACCOUNTING POLICY – The City shall employ encumbrance accounting in all budgeted governmental funds as a method of budgetary control. Encumbrances represent commitments related to unperformed contracts or outstanding purchase orders. At the time a purchase order or contract is issued, the related appropriation shall be encumbered to ensure that expenditures do not exceed authorized appropriations.

Encumbrances are not recorded as expenditures until goods or services have been received and accepted. Upon fulfillment of contract or order, the encumbrance shall be liquidated, and the related expenditures shall be recorded.

Encumbrances outstanding at the end of the fiscal year shall be reported as unassigned fund balance, as defined by GASB Statement No. 54, but are disclosed in the financial statements. Encumbrances do not constitute expenditures or liabilities of the City but indicate the intention to allocate a portion of fund balance for specific purposes.

- C. FUNDS** - Self-balancing groups of accounts are used to account for 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.
- D. EXTERNAL AUDITING** – Pursuant to State Statute, the City will be audited annually by an outside independent auditor. The auditor must be a CPA firm, licensed to practice in the State of Texas, and must 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 auditor's report on the city's financial statements, including federal and state grants single audit, when necessary, will be completed within 120 days of the City's fiscal year end, and the auditor's management letter will be presented to the city secretary 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 auditor will jointly review the management letter with the City Council. Should new auditing standards and reporting requirements delay the annual financial statements, the Finance Director will inform the City Manager who, in turn, will inform City Council of the delay and reason therefore. The Finance Director shall be responsible for establishing a process to ensure timely resolution of audit recommendations.
- E. EXTERNAL AUDITORS RESPONSIBLE TO CITY COUNCIL** - The external auditor is accountable to the City Council and Audit Committee and will have access to direct communication with the City Council if the city staff is unresponsive to auditor recommendations or if the auditor considers such communication necessary to fulfill their legal and professional responsibilities.
- F. EXTERNAL AUDITOR ROTATION** - The City will not require external auditor rotation, but may circulate requests for proposals for audit services, periodically.
- G. INTERNAL CONTROLS MONITORING** - The City Manager and Finance Director are responsible for establishing and performing an internal monitoring function. The Finance Director will establish the time and function of internal monitoring to be performed by the Finance Director and delegated staff as deemed necessary.
- H. INTERNAL FINANCIAL REPORTING** - The Finance department will prepare internal financial reports sufficient for management to plan, monitor, and control the City's financial affairs. Interim Financial Reports will be provided quarterly to management and City Council that explain key economic and fiscal developments and note significant deviations from the budget.
- I. ANNUAL FINANCIAL DISCLOSURE** – As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with support of the City's financial advisor and bond council, will provide certain annual financial information to various information

repositories through disclosure documents or set of documents that included the necessary information. This will include any periodic material event notices as required by the SEC.

- J. COMPLIANCE WITH COUNCIL POLICY STATEMENTS** – Policy statements adopted by City Council are intended to serve as guiding principles for the City’s financial management. While exceptions may occasionally be necessary due to unique or unforeseen circumstances, such exceptions shall be rare, specifically identified, and fully documented. The justification for any exception will be provided to the City Manager and City Council for review and acknowledgement.

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.
- B. INTERNAL CONTROLS** - An internal controls program will be maintained by the Finance Director to ensure compliance with City policies and procedures and to prevent the potential for fraud.
- C. DEPARTMENT HEADS RESPONSIBLE** - Each department head is responsible to the City Manager to ensure that good internal controls are followed throughout their department, that all guidelines on accounting and internal controls are implemented, and that all independent and internal auditor internal control recommendations are addressed.

IV. OPERATING BUDGET

- A. PREPARATION** - The City’s operating budget serves as the annual financial plan for managing governmental and enterprise funds, with the City Manager designated as the Budget Officer. The Finance Department, in coordination with all City departments, prepares the budget and submits it to the City Manager for review and revision before transmitting it to City Council. The proposed budget shall be presented in compliance with Truth-in-Taxation laws, the Local Government Code, the Property Tax Code, and must be adopted by City Council prior to the start of the fiscal year. The operating budget may be submitted to GFOA annually for evaluation and possible awarding of the Award for Distinguished Budget Presentation.
- B. BASIS OF BUDGETING** – The budget is prepared using the same basis of accounting as the audited financial statements except for the exceptions listed in the annual budget, as allowed. Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due. Proprietary funds are accounted for using the full accrual basis of accounting. Revenue is recognized when they are earned, and expenses are recognized when they are incurred.
- C. BALANCED BUDGETS** - The City’s goal is to maintain a balanced operating budget in which current revenues are sufficient to cover current operating expenditures.
- D. PLANNING** – The budget process includes multiple phases, each of which requires a joint effort by City Council and staff. The City Manager and Finance Director will communicate

strategic goals set forth by City Council and the economic condition of the City to provide guidelines for department heads in formulating budget requests and proposals. New or expanded services should support City Council goals, City Manager direction, and department goals.

E. REPORTING - Periodic financial reports will be prepared to enable the department heads to manage their budgets and to enable the City Manager to monitor and control the budget as authorized by the City Council. Interim Financial reports will be presented to the City Council quarterly to include current year revenue and expenditures budgets and year-to-date actual figures for all major funds.

F. CONTROL - Operating Expenditure Control is addressed in Section VIII.

G. RECORD KEEPING - All permanent historical budget documents will be filed with the City Secretary for record keeping pursuant to State law, City Code, and Resolution 46.0.

H. ADOPTED AND AMENDED BUDGET – The budget shall be approved by City Council prior to the start of the fiscal year. City Council may amend the proposed budget prior to adoption. On final adoption, the budget shall be in effect for the budget year. Under conditions which may arise, City Council may amend or change the budget as allowed by state law.

I. BUDGET ADMINISTRATION – All expenses of the City shall be made in accordance with the adopted annual budget or as legally amended. The City Manager, as Budget Officer, will manage the City budget after it is formally adopted by City Council.

J. LONG-TERM FINANCIAL PLANNING – The City shall develop and maintain a multi-year financial plan to link long-term policies and goals with the annual budget. The plan will project major revenues and expenditures, evaluate financial risks, support sustainable service levels, guide capital investment, and highlight key factors that may impact future resources.

V. FUND BALANCE/RESERVES POLICY

The City's Fund Balance and Reserve Policy (Appendix F) establishes minimum fund balance levels and reserve practices for both Governmental and Enterprise Funds to ensure financial stability, sustainability, and flexibility. The policy defines fund balance categories consistent with GASB 54 (nonspendable, restricted, committed, assigned, and unassigned) and prescribes the order of spending when multiple classifications apply.

For **Governmental Funds**, the policy maintains a General Fund Emergency Reserve (target of 4 months of operating expenditures) and a Budget Stabilization Reserve (target of 2 months), together equaling 6 months of operating expenditures. Additional reserves include a Strategic & Capital Projects Reserve and a Capital Assets & Infrastructure Replacement Reserve (targeted at 110% of asset cost over its useful life).

For **Enterprise Funds**, the Utility Fund is required to maintain reserves equal to at least 6 months of operating expenses, a Debt Service Reserve equal to or exceeding the requirements dictated by utility debt covenants, separate Water and Wastewater Capital Project Reserves funded by the Capital Reserve Fee, separate Infrastructure Improvement Reserves funded by impact fees, and a Capital Assets & Infrastructure Replacement Reserve (targeted at 110% of asset cost over its useful life).

The policy further provides guidance on designated uses of reserves, funding and replenishment

procedures if reserve levels fall below targets, and appropriate uses of excess reserves. It emphasizes Council authority over reserve use and requires periodic review by the Finance Director with Council approval for any modifications.

VI. CAPITAL EXPENDITURES PROGRAM

A. PREPARATION - The City will develop and maintain Capital Improvement Plans (CIPs) to assess the City's long-term needs for capital improvements, including water, wastewater, streets, and drainage infrastructure. The City will prepare a capital budget annually as part of the fiscal year budget process to prioritize and allocate resources for these improvements.

The City's capital funds may include both capital projects and strategic projects, which are generally limited to one-time projects or initiatives. A detailed list of expenses and projects will be prepared annually on a fiscal year basis by the City Manager, with input from all required departments.

B. CONTROL – Governmental Funds and Proprietary Funds long-term capital improvements will be appropriated during the budget process.

C. ALTERNATE RESOURCES - Where applicable, assessments, impact fees, or other user-based fees should be used to fund capital projects.

D. DEBT FINANCING - The City may utilize debt financing when necessary for the purchase of capital assets, infrastructure improvements, or additions that cannot be prudently funded with current revenues, direct fees, or excess reserves. Long-term debt shall not be used to fund current operating expenditures or annual operations. The term of any debt will not exceed the useful life of the asset or project being financed. Alternative financing options will be evaluated prior to issuing debt to minimize borrowing.

E. STREET MAINTENANCE - The city has an 8-year street maintenance program which will continue on a pay-as-you-go basis to perform street maintenance at the lowest possible cost to avoid base failure.

F. PROGRAMMATIC REPLACEMENT OF CAPITAL ASSETS – The City shall annually prepare and review a schedule for the replacement of its capital assets. This schedule will cover the City's fleet vehicles, large equipment, technology assets, certain minor equipment, and building infrastructure such as HVAC systems, generators, and similar facilities-related assets. The replacement schedule will be based on the anticipated useful life cycles of assets and industry standards, with adjustments made as needed based on condition assessments and operational requirements. Within the resources available each fiscal year, the City shall replace these assets according to the reviewed schedule and input from City staff. The City will utilize separate Governmental and Enterprise Replacement Funds to account for funding determined during the annual budget process for these replacement needs.

VII. REVENUE MANAGEMENT

A. 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

budgets and plans.

- B. 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 of 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.
- C. ADMINISTRATION** - The benefits of a revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed annually for cost effectiveness as a part of the indirect cost, and cost of services analysis. Where appropriate, the City will use the administrative processes of State or Federal collection agencies in order to reduce administrative costs.
- D. REVENUE ADEQUACY** - The City will require there be a balance in the revenue system. That is, the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
- E. 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.
- F. NON-RECURRING REVENUES** - One-time revenues will not be used for ongoing operations. Non-recurring revenues will be used for only non-recurring expenditures.
- G. PROPERTY TAX REVENUES** – For every annual budget, the City may levy two property tax rates: Maintenance and Operations and Interest & Sinking (debt service). The debt service levy shall be sufficient for meeting all principal and interest payments associated with the City's outstanding general debt obligations for that budget year. The debt service levy and related debt service expenditures will be accounted for in the Debt Service Fund. The maintenance and operations levy will be accounted for in the General Fund. The City will adhere to state law when calculating these tax rates. Property shall be assessed at 100% of the fair market value as appraised by the appropriate Appraisal District. Reappraisal and reassessment shall be done regularly as required by State law. A 97% collection rate will serve as a minimum for tax collections, with a delinquency rate of 3%. All delinquent taxes will be aggressively pursued by the City's Delinquent Tax Attorney. A penalty will be assessed to compensate the attorney as allowed by state law, and in accordance with the attorney's contract.
- H. 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. Fees and charges should be reviewed and updated periodically to ensure that fees provide adequate coverage of costs of services being provided. Factors to consider in setting fees may include impact of inflation, other cost increases, the adequacy of the coverage of costs, impact on users, and current competitive/market rates.
- I. IMPACT FEES** - Impact fees will be imposed for water and wastewater in accordance with the requirements of state law. The Public Works Director working with the Capital Improvements Advisory Committee shall prepare a bi-annual report on the capital improvement plans and fees. Additionally, impact fees will be re-evaluated at least every five years as required by law.
- J. ADMINISTRATIVE CHARGES** - A method will be maintained whereby the General Fund can impose a management fee to the Enterprise Fund for indirect costs performed on the Enterprise Funds' behalf.
- K. WATER/WASTEWATER RATES** - The City Council will review water and wastewater rates

periodically and, if necessary, adopt new rates that generate sufficient revenue to cover operating expenditures, recoup depreciation, account for inflation, meet the legal requirements of all applicable bond covenants, and provide for an adequate level of working capital. These rates are separate and distinct from the City's capital reserve fee and debt service fee, which are dedicated to funding capital replacement and debt obligations.

L. INTEREST INCOME - Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the operating budgets which, wherever possible, will be in accordance with the equity balance of the fund from which monies were provided to be invested.

M. WRITE-OFF OF UNCOLLECTIBLE RECEIVABLES (excluding property taxes, court fines and warrants) – The write-off of uncollected accounts is a bookkeeping entry only and does not release the debtor from any debt owed to the City. Receivables shall be considered for write-offs as follows:

- a) State statute authorizing the release or extinguishment, in whole or in part, of any indebtedness, liability, or obligation, if applicable.
- b) Utility accounts outstanding and identified as uncollectible, and all reasonable attempts to collect have been made.

N. REVENUE MONITORING - Revenues received will be regularly compared to budgeted revenues and variances will be investigated.

VIII. EXPENDITURE CONTROL

A. APPROPRIATIONS - The level of budgetary control is at the fund level for all City funds. A budget amendment adds new appropriations to a fund and increases the total spending authority approved in the annual budget. Amendments are typically needed when new projects are added or new revenues, such as grants, become available. Budget amendments require City Council approval.

A budget transfer moves appropriations within the same fund without changing the total budgeted amount for that fund. Transfers are used to adjust funding between line items or departments to meet operational needs and may be approved administratively in accordance with this policy.

Council must approve budget amendments adding new appropriations, and budget transfers between different funds. City Manager can approve budget transfers within the same fund.

B. PURCHASES –All City purchases of goods and services shall comply with applicable federal, state, and local laws. The City's objectives are to maximize the value of public funds, maintain a procurement system that ensures quality and integrity, and provide fair and equitable treatment to all vendors. Competitive pricing, through informal or formal bidding as required by law, will be pursued to ensure best value.

As provided in the City's Home Rule Charter, the City Manager is authorized to establish rules and regulations governing procurement. City Council approval is required for purchases that meet or exceed the formal competitive bidding threshold as established in state law. Purchases below the formal bidding threshold shall follow the Matrix of Authority outlined in the City's Procurement Procedures Manual, which the City Manager will review no less than annually.

C. PROMPT PAYMENT – All invoices will be paid 30 days of receipt 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.

D. EMPLOYEE REIMBURSEMENTS/ADVANCES - Policy set forth in the City’s Policies and Procedures Manual, Reimbursement of Expenses.

IX. ASSET MANAGEMENT

A. INVESTMENTS – The City’s Investment portfolio will be conducted and managed in accordance with the Public Funds Investment Act (PFIA) and the City’s Investment Policy. A quarterly Investment Report will be presented to City Council consistent with the Public Funds Investment Act (PFIA). The Investment Officer will review the City’s Investment Policies annually and the Policy will be presented to City Council for approval with any revisions. The City’s Investment Policies are attached as Appendix A to the Financial Management Policy.

B. CASH MANAGEMENT - The City’s cash flow will be managed to maximize the cash available to invest. Interest earnings shall be maximized through a managed approach to cash flows. Deposits of cash receipts will be made daily in accordance to the City’s Cash Receipts Procedures. Each department head shall ensure that departmental procedures are adequate to safeguard City funds. Written guidelines on cash receipts and other financial matters shall be maintained for internal controls.

C. FIXED ASSETS AND INVENTORY - The assets will be reasonably safeguarded and properly accounted for and prudently insured.

D. CAPITALIZATION OF CAPITAL ASSETS - The capitalization of capital assets will be conducted in accordance with the Capitalization of Capital Assets Policy attached as Appendix B.

E. SURPLUS PROPERTY AND ASSET DISPOSAL – The City’s Surplus Property Policy, approved by City Council and included in the Procurement Manual, establishes procedures for the disposal of personal property no longer needed for municipal operations. Consistent with Chapter 2175 of the Texas Governmental Code, surplus property is defined as personal property that exceeds the City’s needs and is not required for foreseeable future use. Disposal methods may include transfers, auction, trade-in, donation, disposal, or insurance settlement. All actions must comply with applicable statutes, funding requirements, data security standards, and require oversight by the Procurement Manager and the Finance Director.

X. FINANCIAL CONDITION

A. OPERATING DEFICITS – The City’s goal is current expenditures will be paid with current revenues. Deferrals, short-term loans, or one-time sources will generally be avoided as budget balancing techniques.

B. RISK MANAGEMENT PROGRAM - The City’s approach to risk management is to identify

and control risks to the City. Department heads are responsible for conducting safety training as needed.

- C. ENTERPRISE FUND SELF-SUFFICIENCY** - The goal of the Enterprise Fund is to be self-sufficient. Indirect administrative cost and direct personnel costs performed by General Fund should be charged to Enterprise Fund either through direct charges and/or through a pre-set management fee. Revenue should be sufficient to cover operating expenditures.

XI. DEBT MANAGEMENT

The City recognizes debt as an important financing tool for capital investment and long-term infrastructure needs, and it will be used in a prudent and responsible manner. Borrowing practices will be conducted with City Council approval and guided by the principles of maintaining financial strength, preserving creditworthiness, and ensuring affordability for current and future taxpayers. Whenever possible, self-supporting revenues will be used in place of tax revenues, and alternatives to long-term debt—such as grants, developer contributions, impact fees, leasing, reserves, or current funds—will be evaluated. The detailed standards and procedures governing debt issuance and management are set forth in the City’s comprehensive Debt Management Policy (Appendix E).

XII. STAFFING AND TRAINING

- A. ADEQUATE STAFFING** - Staffing levels will be adequate for the fiscal functions of the City to function effectively.
- B. TRAINING** - The City will support the continuing education efforts of all financial staff including the investment time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, training, and sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts. The Investment Officer, as required by law, will attend ongoing training from an independent source authorized to provide PFIA Certification as determined by the Texas Governmental Code.

XIII. GRANT FINANCIAL MANAGEMENT

- A. GRANT SOLICITATION** – The City may seek, apply for, and effectively administer federal, state, and local grants which support the City’s current priorities and objectives as follows:
1. The City will stay informed about available grants and will apply for any which would be cost beneficial and meet the City’s objectives and priorities identified by City Council and City management.
 2. Grant Funding will be considered to leverage City funds. Inconsistent and/or fluctuation grants should not be used to fund ongoing programs or services.
 3. The City will ensure resources are available to effectively administer the program in compliance with grant requirements and successfully perform the grant scope of work.
 4. The potential for incurring ongoing costs to include assumptions of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

Grant funding is to be solicited with prior approval of the City Manager, and communication will be made with City Council to keep them informed on notable grants being solicited.

B. GRANT ACCEPTANCE – All grants awarded to the City must be accepted by action of the City Council. If the grant opportunity is identified early enough for inclusion in the annual budget, it shall be identified and budgeted in revenue and expenditure accounts. If the grant is accepted, but has not been included in the annual budget, a budget amendment shall be requested to reflect the revenues and expenditures associated with the grant.

C. RESPONSIBILITY – The Finance Director, as the City's Grant Administrator, will oversee the day-to-day operations of grant programs, will monitor performance and compliance, and will also keep the accounting department informed of significant grant-related plans and activities. The Finance Director will serve as liaison with grantor financial management personnel, will prepare invoices, and will keep the books of account for all grants.

XIV. DONATIONS

The City must always consider public trust when accepting donations, and the City has no obligation to accept any donation proposed by a donor. Thus, donations may only be accepted by the City of Fair Oaks Ranch when they have a public purpose consistent with the goals and objectives of the City, are in the best interest of the City, and are in compliance with and not prohibited by any federal, state, and city laws and regulations. The City may decline any donation without cause or comment. Donations do not become the property of the City until accepted by City Council or the City Manager being authorized by Council to accept monetary and/or non-monetary donations of less than \$1,000, and until completion of any documentation required by law. Should any applicable federal, state, and/or city law or regulation provide specific monetary and/or nonmonetary limit of donation of less than \$1,000, that specific limitation shall control. Any donation accepted by the City Manager will be reported to City Council no less than annually. (See Tex. Loc. Gov't Code Ann. §§ 171.001 et seq.; Tex. Loc. Gov't Code Ann. §§ 176.001 et seq.; and Tex. Penal Code §§ 36.001 et seq.)

XV. ANNUAL REVIEW

The Financial Management Policy will be reviewed annually by the Finance Director. Recommended amendments, with the concurrence of the City Manager, will be presented to the City Council for approval. The City Council, pursuant to Government Code §2256.005, shall adopt, annually, a resolution stating the Investment Policy has been reviewed and, record any changes made thereof.

INVESTMENT POLICY

I. Policy

It is the policy of the City of Fair Oaks Ranch, Texas (the “City”) to invest public funds in a manner which will provide the highest, reasonable investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all federal, state, and local statutes governing the investment of public funds. It is also the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust.

II. Purpose

The purpose of this policy is to comply with the Texas Government Code, Chapter 2256, the Public Funds Investment Act (the “Act”), and Texas Government Code, Chapter 2257, the Public Funds Collateral Act, which requires City Council 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’s funds.

III. Scope

This investment policy applies to all financial assets and funds of the City. Funds listed in this section are as defined in the City’s audited Annual Financial Report. Funds are created by the City unless specifically exempted by the City Council and this policy.

1. General Fund
2. Capital Projects Funds to include the Strategic Projects Fund
3. Equipment Replacement Fund
4. Debt Service Fund created for general obligation indebtedness and revenue bonds
5. Enterprise Fund for our Water and Wastewater Utilities
6. Any other fund created by the City Council

Investments are being pooled into a pooled group fund that consists of balances from the City’s funds above. The strategy of pooling investments is subject to change as deemed appropriate by the Investment Officer, and subject to the provisions of this Policy.

IV. General Objectives

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, diversification, and yield.

Safety - Safety of the principal is the foremost objective of the city. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio guarding against security defaults or erosion of market value.

Liquidity - The investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated. To the extent possible, this will be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

Diversification - Diversification of the portfolio will include diversification by maturity and market sector to manage market risk.

Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Market rate of return may be defined as the average yield of the current six-month US Treasury Bill. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Effective cash management is recognized as essential to good fiscal management. Cash Management is defined as the process of managing monies in order to ensure maximum cash availability. The City will effectively collect account receivables, practice prudent investment of its available cash, disburse payments in accordance with invoice terms and manage banking services.

V. Standards of Care

Prudence - The standard of prudence to be used by investing officials shall be the "prudent person" rule and shall be applied in the context of managing the City's overall portfolio with the objectives and priority of preservation of safety of principal, liquidity, and yield. This standard states:

“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 expected income to be derived.”

Prudence of an investment officer's decisions shall be exercised and measured by considering the investment of all funds under the City's authority, which the Investment Officer had a responsibility, rather than a consideration to the prudence of a single investment, and whether the investment decision was consistent with the written investment policy.

Limitation of Personal Liability - Investment officials acting in accordance with this policy and in accord with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change is reported in a timely fashion and the appropriate action is taken to control unfavorable developments.

VI. Delegation of Authority and Responsibilities

Delegation of Authority - The City's Finance Director, acting on behalf of the city, is designated as the Investment Officer of the City. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. The Investment Officer shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and established written procedures.

Training – In accordance with the Act, the Investment Official shall attend ongoing training from an independent source authorized to provide PFIA certification. Investment officials must complete at least 10 hours of investment training within 12 months of taking office or assuming duties and shall attend an investment training session not less than once in a two-year fiscal period and receive not less than 10 hours of instruction relating to investment controls, security risks, strategy risks, market risks, diversification, and compliance.

Ethics and Conflicts of Interest - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions that conduct business with the City. An investment official 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 official 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 the relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and City Council.

City Council Responsibilities – The City Council holds ultimate fiduciary responsibility for the investment portfolio. City Council will designate investment officer(s), review quarterly reporting, approve authorized broker/dealers, and annually review and adopt the Investment Policy and Strategy.

VII. Internal Controls

The City Manager and Investment Officer are 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 shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance

recognizes that (a) the cost of a control should not exceed the benefits likely to be derived and (b) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall focus on the following points:

- Separation of duties to prevent collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Clear delegation of authority
- Documentation of transactions

The City's Investment Officer shall perform an internal compliance audit of management controls on investments and adherence to investment policies in conjunction with the annual financial audit.

VIII. Safekeeping and Custody

Safekeeping – All securities purchased by the City under this Policy, excluding Investment Pools and Mutual Funds, shall be settled on a delivery versus payment basis and held in safekeeping by an independent third-party financial institution approved by the City. All safekeeping arrangements will be approved by the Investment Officer and an agreement of the terms executed in writing. The safekeeping institution shall be required to issue safekeeping receipts to the City including all pertinent information for each security and clearly indicating the ownership by or pledge to the City.

Authorized Financial Dealers and Institutions - The Investment Officer will maintain a list of financial institutions and security broker/dealers authorized to provide investment/depository services. The list of qualified brokers/dealers shall be reviewed and adopted annually by City Council as part of the investment policy resolution. All authorized brokers/dealers will be provided with a copy of our investment policy and have a qualified representative sign a policy certification stating they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls in an effort to prevent unauthorized investment transactions not authorized by this Policy, except to the extent that this authorization is dependent on an analysis makeup of the City's entire portfolio or requires an interpretation of subjective investment standards. A broker may be removed from eligible status, without notice, at the City's sole discretion.

Those firms that request to become qualified bidders for securities transactions must provide the following as appropriate:

- Proof of Financial Industry Regulatory Authority (FINRA) certification and FINRA's Central Depository Registration (CRD) number
- Proof of Texas State Securities registration
- Annual audited financial statements
- Proof of National Association of Security Dealers certification
- Trading resolution

Each pool in which the city participates will be provided a copy of the City's current investment policy and have a qualified representative sign a compliance certification stating they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls to preclude unauthorized investment transactions in the entity's investment policy, except to the extent authorization is dependent on an analysis makeup of the City's entire portfolio, requires an interpretation of subjective investment standards.

The Investment Officer of the City may not use any dealer or institution which has not met the requirements above.

Investment Management Firms – The City may, at City Council's approval, contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for investment and management of its public funds or funds under its control. This contract term shall be a maximum of 2 years with renewal or extensions subject to approval by City Council by resolution.

Depository Agreement – At least every five (5) years, a primary banking services depository shall be selected by the City through a competitive request for proposal (RFP) or bid process in accordance with Section 105 of the Texas Government Code. In selecting this depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. This institution shall be used for normal banking services including disbursements, collections, and safekeeping. Other banking institutions from which the City may purchase certificates of deposit will also be designated as a depository and must execute a written agreement in accordance with the provisions of this Policy if collateral is required.

Delivery vs Payment - All trades with the exception of investment pools and mutual funds will be executed by delivery vs payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities and collateral will be held in the City's name by a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited.

Competitive Bidding – All investment transactions, excluding market mutual funds, local government investment pools and securities made at prevailing market rates, shall be made on a competitive basis to assure that the City is receiving fair market prices. Bids, of at least three competitive offers, may be orally, in writing, electronically, or in any combination of those methods.

Monitoring Credit Ratings – The Investment Officer shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by the Policy, the investment officer will notify the City Manager of the loss or rating immediately and make a recommendation as to the conditions affecting the rating and possible loss of principal with available liquidation options.

Monitoring Insurance Status – The Investment Officer shall monitor the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC / NCUA / SIPC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer will immediately liquidate any brokered certificate of deposit which placed the City above the FDIC / NCUA / SIPA insurance level.

IX. Authorized and Suitable Investments

Eligible Investments - Assets of the City may be invested in the following instruments as authorized by the Public Funds Investment Act (Section 2256). Only those instruments listed in this section are authorized and will be used as needed to maintain an appropriate diversified portfolio. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. Prudent measures will be taken to liquidate any investment that drop below the required minimum rating in accordance with the City's policy.

1. Local Government Investment Pools which meet the requirements of Chapters 2256.016-2256.019 of the Public Funds Act which include being rated no lower than AAA or AAA- m or an equivalent rating by at least one nationally recognized rating service and strive to maintain a \$1 net asset value.
2. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities.
3. Certificates of Deposit issued by a depository institution that has its main office or a branch in Texas. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law.
4. Brokered Certificates of Deposit issued by one or more federally insured depository institutions, wherever located within the United States, delivered versus payment to the City's safekeeping agent. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law. Before purchase, the Investment Officer must verify the FDIC/NCUA status of the bank to assure the bank is FDIC/NCUA insured.
5. No-load Money Market Mutual Funds that comply with SEC Rule 2a-7 and 1) are registered and regulated by the Securities and Exchange Commission and provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, 2) seek to maintain a net asset value of \$1 for share, and 3) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Existing Investments - The City is not required to liquidate investments which were authorized investments at the time of purchase under the Public Funds Investment Act (Section 2256.017).

Collateralization - Collateralization will be required on all funds on time and demand deposits with a depository bank, other than investments, above the FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security, the collateralization level will be at least one hundred two percent (102%) of market value of principal and accrued interest. All collateral must be pledged to the City and shall be held by an independent third-party institution approved by the City outside the holding company of the pledging bank. A depository/collateral agreement shall be executed between the City, City depository, and custodian. The pledging institution will monitor and maintain the margins daily. The custodian will provide a monthly report of collateral pledged to the City.

Authorized Collateral – Only securities prescribed as eligible investments under the Public Funds Investment Act qualify as pledged securities and are limited by the City as appropriate.

X. Investment Parameters

Diversification - See Section IV; General Objectives

Maximum Maturities - To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. The average dollar-weighted maturity of investments of the City's portfolio shall not exceed one (1) year. The maximum allowable maturity of an individual investment shall be no more than two (2) years.

Performance Standards - The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, diversification, and yield). The City shall pursue a conservative buy-and-hold portfolio and swaps will be prohibited. However, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. As the benchmark, the Investment Officer shall determine whether market yields are being achieved by comparing the portfolio market yield to the three (3) month U.S. Treasury Bill, the six (6) month U.S. Treasury Bill and the two (2) year U.S. Treasury Note.

XI. Investment Strategies

The City may maintain separate portfolios, or one commingled portfolio for individual funds that are managed according to the terms of this Policy. Investments may be pooled or invested for the benefit of one or more funds. If pooled, principal and interest income is distributed to each respective fund on a pro rata basis. Whether investments are pooled

or invested separately is decided by the Investment Officer based upon which method is most beneficial to the City for the investment strategies established. The investment strategy for portfolios established after the annual Investment Policy review and adoption will be managed to ensure that it will meet all the requirements established by the City's investment policy and the Public Funds Investment Act.

The City maintains and pools all following fiscal funds into a pooled fund group recognizing the parameters and needs of each unique fund. This pooled fund group is an aggregation of the majority of City funds including tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, and grants. This portfolio is maintained to meet anticipated daily cash needs for City operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the investment portfolio shall not exceed one (1) year. The objectives of this portfolio are to ensure safety of principal; ensure adequate investment liquidity; limit market and credit risk through diversification; and attain the best feasible yield in accordance with the objectives and restrictions set for in this Policy. The City's fund groups represented in the pooled fund group and their individual investing objectives are as follows:

Investments pertaining to the General Fund, Equipment Replacement Fund, Strategic Projects Fund, and Enterprise Fund, for our Water and Wastewater Utilities have the primary objective of assurance that anticipated daily cash needs are matched with adequate investment liquidity. All securities authorized are high credit quality securities to manage credit risk.

Investments pertaining to the Debt Service Funds are structured with the objective of providing assurance of investment liquidity adequate to cover the timely payment of debt service obligations. Due to the definitive debt service schedules, the nature of these funds allow for precise forecasting of required cash flows.

XII. Reporting

Methods - As required by Government Code 2256.023, on a quarterly basis, the Investment Officer shall prepare, sign, and submit to the City Manager and City Council a written report for the preceding quarter in accordance with the Public Funds Investment Act. The report will include the following, at a minimum:

- A description of the investment position of the City on the date of the report.
- A summary statement for each pooled fund group stating the beginning market value for the period, additions and changes to the market value during the period, and the ending market value for the period, and any fully accrued interest.
- Book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
- Maturity date of each separately invested asset that has a maturity date.
- Account or fund or pooled group fund of the City for which each individual

investment was acquired.

- Statement of compliance of the investment portfolio of the City with the Act and Investment Policy.

Market prices for market value calculation of the investment portfolio will be calculated quarterly by independent sources.

If the City invests in any investments other than money market mutual funds, investment pools, or depository bank investment accounts then the City's internal controls and quarterly reports shall be reviewed by the City's independent auditor during the annual audit process.

XIII. Investment Policy Adoption

The Investment Policy shall be adopted by Resolution as part of the Financial Management Policies. The policy shall be reviewed and adopted by Resolution annually by the City Council.

List of Qualified Brokers/Dealers

Frost Bank 111 W. Houston Street San Antonio, TX 78205	Manuel Long Vice President - Public Finance manuel.long@frostbank.com	(210) 220-5372 (210) 262-9081 C
Frost Bank Securities 111 W. Houston Street San Antonio, TX 78205	Eileen Slater Sr. Vice President - Capital Markets eileen.slater@frostbank.com	(210) 220-5546 (210) 404-8815 C
TexPool Participant Services 1001 Texas Avenue Suite 1150 Houston, TX 77002	Denise Hamala Unit Manager denise.hamala@FederatedHermes.com	(866) 839-7665
Texas CLASS 6907 Shavelson St. Houston, TX 77055	Zach Brewer Director - Investment Services zach.brewer@texasclass.com	(281) 642-4350
Hilltop Securities Inc. 1201 Elm Street Suite 3500 Dallas, TX 75270	Gilbert Ramon Vice President gilbert.ramon@hilltopsecurities.com	(713) 654-8606 (713) 724-4178 C
UBS Financial Services, Inc. 1780 Hughes Landing Blvd. 3 Hughes Landing, Suite 200 The Woodlands, TX 77380	Richard Ebert First Vice President - Wealth Management richard.ebert@ubs.com	(281) 362-6340
Stifel, Nicolaus & Company, Inc. 2107 Elliott Avenue Suite 208 Seattle, WA 98121	Josh Gorham Managing Director gorhamj@stifel.com	(206) 443-7260 (206) 963-1280 C

Appendix B**CAPITALIZATION POLICY FOR CAPITAL ASSETS**

The purpose of this policy is to establish a capitalization policy for auditing purposes and, to set standards of accounting for City of Fair Oaks Ranch assets according to Government Accounting Standards Board Statement 34 with regard to categories and threshold amounts to be capitalized.

SECTION 1. Capital assets categories and thresholds are:

Land/land improvement	Any amount
Buildings/building improvements	\$25,000.00
Infrastructure	\$25,000.00
Personal property	\$ 5,000.00
Leasehold improvements	\$25,000.00

SECTION 2. For clarification purposes the above items are generally defined as, but not expressly limited to the following definitions:

Land is the purchase price or fair market value at time of gift, any commissions, professional fees, land excavation, fill, grading, drainage, demolition of existing building (less salvage), property removal (relocation or reconstruction) of others (railroad, telephone, and power lines), date of purchase accrued mortgage interest and any unpaid taxes and right of way cost. Land improvements are considered to be fencing, landscaping structure(s), parking lots, driveway, recreation areas, septic systems, and pavilions.

A building is a structure that is permanently attached to the land, has a roof, and is partially or completely enclosed by walls. A building improvement must extend the life of the building or increase the value of the building. Examples of capitalized building improvements are structural changes & installation or upgrade of roofing, heating & cooling systems, electrical, etc.

Infrastructure is usually considered stationary and can be preserved for a significantly greater number years than most capital assets. They are often linear and continuous in nature. Infrastructure improvements should extend the useful life and /or increase the value by 25% of the original cost or life period. Examples of infrastructure are streets, curbs, gutters, sidewalks, fire hydrants, bridges, dam, drainage facility, radio tower, water main and distribution lines, light systems and signage.

Personal property is fixed or movable tangible assets to be used for operations that has a life beyond one year. Examples of personal property are vehicles, other motor vehicles, furnishings & equipment.

Leasehold improvements are the construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease.

Appendix C**Identity Theft Prevention Program****Purpose**

To establish an Identity Theft Prevention Program designed to detect, prevent and mitigate identity theft in connection with the opening of a covered account or an existing covered account and to provide for continued administration of the Program in compliance with Part 681 of Title 16 of the Code of Federal Regulations implementing Sections 114 and 315 of the Fair and Accurate Credit Transactions Act (FACTA) of 2003.

Definitions

Covered account means:

1. An account that a financial institution or creditor offers or maintains, primarily for personal, family, or household purposes that involves or is designed to permit multiple payments or transactions. Covered accounts include credit card accounts, mortgage loans, automobile loans, margin accounts, cell phone accounts, utility accounts, checking accounts and savings accounts; and
2. Any other account that the financial institution or creditor offers or maintains for which there is a reasonably foreseeable risk to customers or to the safety and soundness of the financial institution or creditor from identity theft, including financial, operational, compliance, reputation or litigation risks.

Customer means a person that has a covered account with a financial institution or creditor.

Identity theft means fraud committed or attempted using the identifying information of another person without authority.

Red flag means a pattern, practice or specific activity that indicates the possible existence of identity theft.

Service provider means a person that provides a service directly to the financial institution or creditor.

Utility means Fair Oaks Ranch Utilities

Establishment of an Identity Theft Prevention Program Requirements

The City of Fair Oaks Ranch establishes an Identity Theft Prevention Program to detect, prevent and mitigate identity theft in connection with the opening of a covered account or any existing covered account. The Program shall include reasonable policies and procedures to Identify Red Flags, to Detect Red Flags, to respond appropriately to Red Flags, to ensure the Program is updated as needed to reflect changes in risks to customers and to the safety and soundness of Fair Oaks Ranch Utilities from identity theft.

Administration of the Program

1. City Council approved written Program;
2. The City Administrator or his designee shall be responsible for the development, implementation, oversight and continued administration of the Program;
3. Staff shall be trained, as necessary, to effectively implement the Program; and

4. Appropriate and effective oversight of service provider arrangements shall be made.

Guidelines

A. The Program

The Utility shall incorporate, as appropriate, its existing policies, procedures, and other arrangements that control reasonably foreseeable risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

B. Identifying Red Flags

1. Consider the following *risk factors* in identifying relevant red flags for covered accounts:
 - a. The types of covered accounts offered or maintained;
 - b. The methods provided to open covered accounts;
 - c. The methods provided to access covered accounts; and
 - d. Its previous experience with identity theft.
2. Incorporate relevant red flags from the following *sources*:
 - a. Incidents of identity theft previously experienced;
 - b. Methods of identity theft that reflect changes in risk; and
 - c. Applicable supervisory guidance.
3. *Identify* relevant red flags for covered accounts it offers or maintains:
 - a. Alerts, notifications, or other warnings received from consumer reporting agencies or service providers, such as fraud detection services;
 - b. The presentation of suspicious documents;
 - c. The presentation of suspicious personal identifying information;
 - d. The unusual use of, or other suspicious activity related to, a covered account; and
 - e. Notice from customers, victims of identity theft, law enforcement authorities, or other persons regarding possible identity theft in connection with covered accounts.

C. Detecting Red Flags

Detect red flags in connection with the opening of covered accounts and existing covered accounts by:

1. Obtaining identifying information about, and verifying the identity of, a person opening a covered account; and
2. Authenticating customers, monitoring transactions, and verifying the validity of change of address requests in the case of existing covered accounts.

D. Preventing and Mitigating Identity Theft

The Program shall provide for appropriate responses to detect red flags to prevent and mitigate identity theft. Appropriate responses may include:

1. Monitoring a covered account for evidence of identity theft;
2. Contacting the customer;
3. Changing any passwords, security codes or other security devices that permit access to a covered account;
4. Reopening a covered account with a new account number;
5. Not opening a new covered account;
6. Closing an existing covered account;

7. Not attempting to collect on a covered account or not selling a covered account to a debt collector;
8. Notifying law enforcement; or
9. Determining no response is warranted under the particular circumstances.

E. Updating the Program

The Program shall be updated as needed to reflect changes in risks to customers and to the safety and soundness of the Utility from identity based on factors such as:

1. The experiences of the Utility with identity theft;
2. Changes in methods of identity theft;
3. Changes in methods to detect, prevent and mitigate identity theft;
4. Changes in the types of accounts that the Utility offers or maintains;
5. Changes in the business arrangements of the Utility, including mergers, acquisitions, alliances, joint ventures and service provider arrangements

F. Methods for Adminstrating the Program

Oversight shall include:

1. The City Administrator or his designee responsible for the development, implementation, oversight and continued administration of the Program;
2. Staff trained, as necessary, to effectively implement the Program;
3. Exercising appropriate and effective oversight of service provider arrangements;
4. Review of reports prepared by staff regarding compliance; and
5. Approving of material changes to the Program as necessary to address changing risks of identity theft.

Reports shall be prepared by the City Manager, annually:

1. On compliance; and
2. Address material matters related to the Program and evaluate issues such as:
 - a. The effectiveness of the policies and procedures in addressing the risk of identity theft in connection with the opening of covered accounts and with respect to existing covered accounts;
 - b. Service provider agreements;
 - c. Significant incidents involving identity theft and management's response; and
 - d. Recommendations for material changes to the Program.

Oversight of Service Provider Arrangements

Steps shall be taken to ensure that the activity of a service provider is conducted in accordance with reasonable policies and procedures designed to detect, prevent and mitigate the risk of identity theft whenever the Utility engages a service provider to perform an activity in connection with one or more covered accounts.

Duties Regarding Address Discrepancies

A. Reasonable Belief

The Utility shall develop and implement reasonable policies and procedures designed to enable them to form a reasonable belief that a credit report relates to the consumer for whom it was requested if

the Utility receives a notice of address discrepancy from a nationwide consumer reporting agency indicating the address given by the consumer differs from the address contained in the consumer report.

B. Consumer's Address

The Utility may reasonably confirm that an address is accurate by any of the following means:

1. Verification of the address with the consumer;
2. Review of the Utility's records;
3. Verification of the address through third-party sources; or
4. Other reasonable means.

If an accurate address is confirmed, the Utility shall furnish the consumer's address to the consumer reporting agency from which it received the notice of address discrepancy if:

1. The Utility establishes a continuing relationship with the consumer; and
2. The Utility, regularly and in the ordinary course of business, furnishes information to the consumer reporting agency.

*Appendix D***TAX-EXEMPT FINANCING COMPLIANCE PROCEDURE****ARTICLE I
DEFINITIONS**

Section 1.1. Definitions. Capitalized words and terms used in this Compliance Procedure have the following meanings:

“Annual Compliance Checklist” means a questionnaire and/or checklist described in **Section 6.1** hereof that is completed each year for the Tax-Exempt Bonds.

“Bond Compliance Officer” means the Issuer’s Finance Director or, if the position of Finance Director is vacant, the person filling the responsibilities of the Finance Director for the Issuer.

“Bond Counsel” means a law firm selected by the Issuer to provide a legal opinion regarding the tax status of interest on the Tax-Exempt Bonds as of the issue date or the law firm selected to advise the Issuer on matters referenced in this Compliance Procedure.

“Bond Restricted Funds” means the funds, accounts, and investments that are subject to arbitrage rebate and/or yield restriction rules that have been identified in the Tax Compliance Agreement for the Tax-Exempt Bonds.

“Bond Transcript” means the “transcript of proceedings” or other similarly titled set of transaction documents assembled by Bond Counsel following the issuance of the Tax-Exempt Bonds.

“Code” means the Internal Revenue Code of 1986, as amended.

“Compliance Procedure” means this Tax-Exempt Financing Compliance Procedure.

“Cost” or “Costs” means all costs and expenses paid for the acquisition, design, construction, equipping or improvement of a Project Facility or costs of issuing Tax-Exempt Bonds for a Project Facility.

“Final Written Allocation” means the Final Written Allocation of Tax-Exempt Bond proceeds prepared pursuant to **Section 5.4** of this Compliance Procedure.

“Financed Assets” means that part of a Project Facility treated as financed with Tax-Exempt Bond proceeds as reflected in a Final Written Allocation or, if no Final Written Allocation was prepared, the accounting records of the Issuer and the Tax Compliance Agreement for the Tax-Exempt Bonds.

“Governing Body” means the City Council of the Issuer.

“Intent Resolution” means a resolution of the Issuer stating (1) the intent of the Issuer to finance all or a portion of the Project Facility, (2) the expected maximum size of the financing and (3) the intent of the Issuer to reimburse Costs of the Project Facility paid by the Issuer from proceeds of the Tax-Exempt Bonds.

"IRS" means the Internal Revenue Service.

"Issuer" means the City of Fair Oaks Ranch, Texas.

"Placed In Service" means that date (as determined by the Bond Compliance Officer) when the Project Facility is substantially complete and in operation at substantially its design level.

"Project Facility" means all tangible or intangible property financed in whole or in part with Tax-Exempt Bonds that are (1) functionally related or integrated in use, (2) located on the same physical site or proximate sites, and (3) expected to be Placed In Service within a one-year period of each other.

"Rebate Analyst" means the rebate analyst for the Tax-Exempt Bonds selected pursuant to the Tax Compliance Agreement.

"Regulations" means all regulations issued by the U.S. Treasury Department to implement the provisions of Code §§ 103 and 141 through 150 and applicable to tax-exempt obligations.

"Tax Compliance Agreement" means the Federal Tax Certificate, Tax Compliance Agreement, Arbitrage Agreement, or other written certification or agreement of the Issuer setting out representations and covenants for satisfying the post-issuance tax compliance requirements for the Tax-Exempt Bonds.

"Tax-Exempt Bonds" means any bond, note, installment sale agreement, lease or certificate intended to be a debt obligation of the Issuer or another political subdivision or government instrumentality, the proceeds of which are to be loaned or otherwise made available to the Issuer, and the interest on which is excludable from gross income for federal income tax purposes. A list of all Tax-Exempt Bonds outstanding (or to be outstanding after the completion of the lease purchase agreement to finance installation of energy savings improvements) and subject to this Compliance Procedure as of March __, 2014, is attached as **Exhibit A**.

"Tax-Exempt Bond File" means documents and records which may consist of paper and electronic medium, maintained for the Tax-Exempt Bonds. Each Tax-Exempt Bond File will include the following information if applicable:

- (a) Intent Resolution.
- (b) Bond Transcript.
- (c) Final Written Allocation and/or all available accounting records related to the Project Facility showing expenditures allocated to the proceeds of the Tax-Exempt Bonds and expenditures (if any) allocated to other sources of funds.
- (d) All rebate and yield reduction payment calculations performed by the Rebate Analyst and all investment records provided to the Rebate Analyst for purposes of preparing the calculations.
- (e) Forms 8038-T together with proof of filing and payment of rebate.
- (f) Investment agreement bid documents (unless included in the Bond Transcript) including:
 - (1) bid solicitation, bid responses, certificate of broker;
 - (2) written summary of reasons for deviations from the terms of the solicitation that are incorporated into the investment agreement; and
 - (3) copies of the investment agreement and any amendments.

- (g) Any item required to be maintained by the terms of the Tax Compliance Agreement involving the use of the Project Facility or expenditures related to tax compliance for the Tax-Exempt Bonds.
- (h) Any opinion of Bond Counsel regarding the Tax-Exempt Bonds not included in the Bond Transcript.
- (i) Amendments, modifications or substitute agreements to any agreement contained in the Bond Transcript.
- (j) Any correspondence with the IRS relating to the Tax-Exempt Bonds including all correspondence relating to an audit by the IRS of the Tax-Exempt Bonds or any proceedings under the Tax-Exempt Bonds Voluntary Closing Agreement Program (VCAP).
- (k) Any available questionnaires or correspondence substantiating the use of the Project Facility in accordance with the terms of the Tax Compliance Agreement for the Tax-Exempt Bonds.
- (l) For refunding bond issues, the Tax-Exempt Bond File for the refunded Tax-Exempt Bonds.

ARTICLE II PURPOSE AND SCOPE

Section 2.1. Purpose of Compliance Procedure.

(a) Issuer's Use of Tax-Exempt Bonds. The Issuer uses Tax-Exempt Bonds to fund Costs of a Project Facility. The Issuer understands that in exchange for the right to issue Tax-Exempt Bonds at favorable interest rates and terms, the Code and Regulations impose ongoing requirements related to the proceeds of the Tax-Exempt Bonds and the Project Facility financed by the Tax-Exempt Bonds. These requirements focus on the investment, use and expenditure of proceeds of the Tax-Exempt Bonds and related funds as well as restrictions on the use of the Project Facility.

(b) IRS Recommends Separate Written Procedures. The Issuer recognizes that the IRS has stated that all issuers of Tax-Exempt Bonds should have separate written procedures regarding ongoing compliance with the federal tax requirements for Tax-Exempt Bonds.

Section 2.2. Scope of Compliance Procedure; Conflicts. This Compliance Procedure applies to all Tax-Exempt Bonds currently outstanding and all Tax-Exempt Bonds issued in the future. If the provisions of this Compliance Procedure conflict with a Tax Compliance Agreement or any other specific written instructions of Bond Counsel, the terms of the Tax Compliance Agreement or specific written instructions of Bond Counsel will supersede and govern in lieu of this Compliance Procedure. Any exception to this Compliance Procedure required by Bond Counsel as part of a future issue of Tax-Exempt Bonds will be incorporated in the Tax Compliance Agreement for the future issue. Any requirements imposed on the Issuer in the Tax Compliance Agreement, will be noted by the Bond Compliance Officer and incorporated into the Annual Compliance Checklist.

Section 2.3. Amendments and Publication of Compliance Procedure. This Compliance Procedure may be amended from time-to-time by the Governing Body. Copies of this Compliance Procedure and any amendments will be included in the permanent records of the Issuer.

ARTICLE III
BOND COMPLIANCE OFFICER; TRAINING

Section 3.1. Bond Compliance Officer Duties. The Bond Compliance Officer is responsible for implementing this Compliance Procedure. The Bond Compliance Officer will work with other employees that use the Project Facility to assist in implementing this Compliance Procedure. The Bond Compliance Officer will consult with Bond Counsel, legal counsel to the Issuer, accountants, tax return preparers and other outside experts to the extent necessary to carry out the purposes of this Compliance Procedure. The Bond Compliance Officer will report to the Governing Body as necessary, and at least annually, regarding implementation of this Compliance Procedure and any recommended changes or amendments to this Compliance Procedure.

Section 3.2. Training.

(a) Training Programs. When appropriate, the Bond Compliance Officer and/or other employees of the Issuer under the direction of the Bond Compliance Officer will attend training programs offered by the IRS or other industry professionals regarding Tax-Exempt Bonds that are relevant to the Issuer.

(b) Change in Bond Compliance Officer. Any time an individual acting as the Bond Compliance Officer passes the responsibilities for carrying out the provisions of this Compliance Procedure to another individual, the Issuer will ensure the incoming individual acting as Bond Compliance Officer is trained on how to implement the policies and procedures included in this Compliance Procedure to ensure the Issuer's continued compliance with the provisions of this Compliance Procedure and all Tax Compliance Agreements for any outstanding Tax-Exempt Bonds.

ARTICLE IV
TAX-EXEMPT BONDS CURRENTLY OUTSTANDING

Section 4.1. Tax-Exempt Bonds Covered by Article IV Procedures. This **Article IV** applies to all Tax-Exempt Bonds issued prior to the date of this Compliance Procedure that are currently outstanding as of March __, 2014 (including the lease purchase agreement to finance energy savings improvements by the Issuer to be hereinafter completed); these Tax-Exempt Bonds are listed on **Exhibit A**.

Section 4.2. Tax-Exempt Bond File. As soon as practical, the Bond Compliance Officer will attempt to assemble as much of the Tax-Exempt Bond File as is available for the Tax-Exempt Bonds listed on **Exhibit A**.

Section 4.3. Annual Compliance Checklists. As soon as practical following the adoption of this Compliance Procedure, the Bond Compliance Officer will work with Bond Counsel and/or legal counsel to the Issuer and cause Annual Compliance Checklists to be completed for all outstanding Tax-Exempt Bonds and will follow the procedures specified in **Article VI** to complete the Annual Compliance Checklists and thereafter include each completed Annual Compliance Checklist in the Tax-Exempt Bond File. A sample Annual Compliance Checklist is attached hereto as **Exhibit B**.

Section 4.4. Correcting Prior Deficiencies in Compliance. In the event the Bond Compliance Officer determines any deficiency in compliance with a Tax Compliance Agreement for an outstanding Tax-Exempt Bond listed on **Exhibit A**, the Bond Compliance Officer will follow the procedures described in

the Regulations or the Tax-Exempt Bonds Voluntary Closing Agreement Program (VCAP) to remediate the noncompliance. If remediation of the noncompliance requires the Issuer to submit a request under VCAP, the Bond Compliance Officer will undertake this step only after reporting the violation to the Governing Body and obtaining its approval.

ARTICLE V

COMPLIANCE PROCEDURE FOR NEW TAX-EXEMPT BOND ISSUES

Section 5.1. Application. This **Article V** applies to Tax-Exempt Bonds issued on or after the date of this Compliance Procedure.

Section 5.2. Prior to Issuance of Tax-Exempt Bonds.

(a) Intent Resolution. The Governing Body will authorize and approve the issuance of Tax-Exempt Bonds. Prior to or as a part of the authorizing resolution or ordinance, the Governing Body may adopt an Intent Resolution.

(b) Directions to Bond Counsel. The Bond Compliance Officer will provide a copy of this Compliance Procedure to Bond Counsel with directions for Bond Counsel to structure the documentation and procedural steps taken prior to issuing the Tax-Exempt Bonds so that they conform to the requirements of this Compliance Procedure, except to the extent Bond Counsel determines that different procedures are required. The Bond Compliance Officer will consult with Bond Counsel so that appropriate provisions are made to fund or reimburse the Issuer's costs and expenses incurred to implement this Compliance Procedure.

(c) Tax Compliance Agreement. For each issuance of Tax-Exempt Bonds, a Tax Compliance Agreement will be signed by the Bond Compliance Officer. The Tax Compliance Agreement will (1) describe the Project Facility and the anticipated Financed Assets, (2) identify all Bond Restricted Funds and provide for arbitrage and rebate compliance, (3) for new money financings, require a Final Written Allocation, and (4) contain a form of the Annual Compliance Checklist for the Tax-Exempt Bonds. The Bond Compliance Officer will confer with Bond Counsel and the Issuer's counsel regarding the meaning and scope of each representation and covenant contained in the Tax Compliance Agreement.

(d) Preliminary Cost Allocations. For each issuance of Tax-Exempt Bonds, the Bond Compliance Officer, in consultation with Bond Counsel, will prepare a preliminary cost allocation plan for the Project Facility. The preliminary cost allocation plan will identify the assets and expected costs for the Project Facility, and when necessary, will break-out the portions of Costs that are expected to be financed with proceeds of the Tax-Exempt Bonds (the "Financed Assets") and the portions, if any, expected to be financed from other sources.

(e) Tax Review with Bond Counsel. Prior to the sale of Tax-Exempt Bonds, the Bond Compliance Officer and Bond Counsel will review this Compliance Procedure together with the draft Tax Compliance Agreement to ensure that any tax compliance issues in the new financing are adequately addressed by this Compliance Procedure and/or the Tax Compliance Agreement. If Bond Counsel determines that this Compliance Procedure conflicts with the Tax Compliance Agreement, or must be supplemented to account for special issues or requirements for the Tax-Exempt Bonds, the Bond Compliance Officer will ask Bond Counsel to include the written modifications or additions in the final Tax Compliance

Agreement. The Bond Compliance Officer will request Bond Counsel to prepare a form of Annual Compliance Checklist for use in monitoring the ongoing compliance requirements for the Tax-Exempt Bonds.

Section 5.3. Accounting and Recordkeeping.

(a) Accounting for New Money Projects. The Bond Compliance Officer will be responsible for accounting for the investment and allocation of proceeds of the Tax-Exempt Bonds. The Bond Compliance Officer will establish separate accounts or subaccounts to record expenditures for Costs of the Project Facility. Where appropriate, the Bond Compliance Officer may use accounts established as part of the Issuer's financial records for this purpose. In recording Costs for the Project Facility, the Bond Compliance Officer will ensure that the accounting system will include the following information: (1) identity of person or business paid, along with any other available narrative description of the purpose for the payment, (2) date of payment, (3) amount paid, and (4) invoice number or other identifying reference.

(b) Accounting for Refunded Bonds and Related Refunded Bond Accounts. For Tax-Exempt Bonds that are issued to refund prior Tax-Exempt Bonds, the Tax Compliance Agreement will set out special accounting and allocation procedures for the proceeds of the financing, and if necessary proceeds of the refinanced Tax-Exempt Bonds.

(c) Tax-Exempt Bond File. The Bond Compliance Officer will be responsible for assembling and maintaining the Tax-Exempt Bond File.

Section 5.4. Final Allocation of Bond Proceeds.

(a) Preparation of Final Written Allocation; Timing. The Bond Compliance Officer is responsible for making a written allocation of proceeds of Tax-Exempt Bonds to expenditures and identifying the Financed Assets. This process will be memorialized in the Final Written Allocation. For a new money financing, the Bond Compliance Officer will commence this process as of the earliest of (1) the requisition of all Tax-Exempt Bond proceeds from any segregated Tax-Exempt Bond funded account, (2) the date the Project Facility has been substantially completed or (3) four and one-half years following the issue date of the Tax-Exempt Bonds. For Tax-Exempt Bonds issued only to refund a prior issue of Tax-Exempt Bonds, the Bond Compliance Officer will work with Bond Counsel to prepare and/or document the Final Written Allocation for the Project Facility financed by the refunded Tax-Exempt Bonds and include it in the Tax Compliance Agreement.

(b) Contents and Procedure. The Bond Compliance Officer will consult the Tax Compliance Agreement and, if necessary, contact Bond Counsel to seek advice regarding any special allocation of Tax-Exempt Bond proceeds and other money of the Issuer to the Costs of the Project Facility. If no special allocation is required or recommended, the Bond Compliance Officer will allocate Costs of the Project Facility to the proceeds of the Tax-Exempt Bonds in accordance with the Issuer's accounting records. Each Final Written Allocation will contain the following: (1) a reconciliation of the actual sources and uses to Costs of the Project Facility, (2) the percentage of the cost of the Project Facility financed with proceeds of the Tax-Exempt Bonds (sale proceeds plus any investment earnings on those sale proceeds), (3) the Project Facility's Placed in Service date, (4) the estimated economic useful life of the Project Facility, and (5) any special procedures to be followed in completing the Annual Compliance Checklist (e.g., limiting the Annual Compliance Checklist to specific areas of the Project Facility that the

Final Written Allocation or the Tax Compliance Agreement treats as having been financed by Tax-Exempt Bonds).

(c) Finalize Annual Compliance Checklist. As part of the preparation of the Final Written Allocation, the Bond Compliance Officer will update the draft Annual Compliance Checklist contained in the Tax Compliance Agreement. The Bond Compliance Officer will include reminders for all subsequent arbitrage rebate computations required for the Tax-Exempt Bonds in the Annual Compliance Checklist.

(d) Review of Final Written Allocation and Annual Compliance Checklist. Each Final Written Allocation and Annual Compliance Checklist will be reviewed by legal counsel to the Issuer or Bond Counsel for sufficiency and compliance with the Tax Compliance Agreement and this Compliance Procedure. Following the completion of the review, the Bond Compliance Officer will execute the Final Written Allocation.

ARTICLE VI

ONGOING MONITORING PROCEDURES

Section 6.1. Annual Compliance Checklist. An Annual Compliance Checklist will be completed by the Bond Compliance Officer each year following completion of the Final Written Allocation. Each Annual Compliance Checklist will be designed and completed for the purpose of identifying potential noncompliance with the terms of the Tax Compliance Agreement or this Compliance Procedure and obtaining documents (such as investment records, arbitrage calculations, or other documentation for the Project Facility) that are required to be incorporated in the Tax-Exempt Bond File. The Bond Compliance Officer will refer any responses indicating a violation of the terms of the Tax Compliance Agreement to legal counsel to the Issuer or Bond Counsel and, if recommended by counsel, will follow the procedure set out in **Section 4.4** hereof to remediate the non-compliance.

Section 6.2. Arbitrage and Rebate Compliance. The Bond Compliance Officer will monitor the investment of Bond Restricted Funds and provide investment records to the Rebate Analyst on a timely basis. The Bond Compliance Officer will follow the directions of the Rebate Analyst with respect to the preparation of and the timing of rebate or yield reduction computations.

EXHIBIT A**LIST OF TAX-EXEMPT BONDS COVERED BY THIS COMPLIANCE PROCEDURE**

1. Leasing Schedule #280-0002457-001 to Master Lease Purchase Agreement between the City of Fair Oaks Ranch, Texas, as lessee, and Siemens Public, Inc., as lessor (Proposed—March __, 2014 Estimated Closing Date).
2. General Obligation Bond, Series 2015 \$7,000,000 – Roadway Reconstruction

EXHIBIT B

NOTE THIS SAMPLE ANNUAL COMPLIANCE CHECKLIST IS INTENDED ONLY AS AN ILLUSTRATION AND SHOULD BE MODIFIED TO ACCOUNT FOR SPECIAL CIRCUMSTANCES OF EACH GOVERNMENTAL TAX-EXEMPT BOND ISSUE. FOR EXAMPLE, IF THE PROJECT FACILITY IS TO BE MANAGED UNDER A QUALIFIED MANAGEMENT AGREEMENT THAT BOND COUNSEL HAS APPROVED, ONLY CHANGES TO THAT MANAGEMENT AGREEMENT SHOULD TRIGGER BOND COUNSEL REVIEW, ETC.

SAMPLE
ANNUAL COMPLIANCE CHECKLIST FOR GOVERNMENTAL TAX-EXEMPT BONDS

Name of tax-exempt bonds ("Bonds") financing	
Financed Asset:	
Issue Date of Bonds:	
Name of Bond Compliance Officer:	
Period covered by request ("Annual Period"):	

Description of Project Facility

(Note: in lieu of completing the table below, the Issuer may attach a copy of the Preliminary Cost Allocation or Final Written Allocation, as may be updated from time to time)

Description	Actual Date Placed in Service	Estimated Useful Life	Actual Total Cost	Actual Amount Financed From Bonds

Item	Question	Response
1 Ownership	Was the entire Project Facility owned by the Issuer during the entire Annual Period?	☐ Yes ☐ No
	If answer above was “No,” was an Opinion of Bond Counsel obtained prior to the transfer? If Yes, include a copy of the Opinion in the Tax-Exempt Bond File. If No, contact Bond Counsel and include description of resolution in the Tax-Exempt Bond File.	☐ Yes ☐ No
2 Leases & Other Rights to Possession	During the Annual Period, was any part of the Project Facility leased at any time pursuant to a lease or similar agreement for more than 50 days?	☐ Yes ☐ No
	If answer above was “Yes,” was an Opinion of Bond Counsel obtained prior to entering into the lease or other arrangement? If Yes, include a copy of the Opinion in the Tax-Exempt Bond File. If No, contact Bond Counsel and include description of resolution in the Tax-Exempt Bond File.	☐ Yes ☐ No
3 Management or Service Agreements	During the Annual Period, has the management of all or any part of the operations of the Financed Asset been assumed by or transferred to another entity?	☐ Yes ☐ No
	If answer above was “Yes,” was an Opinion of Bond Counsel obtained prior to entering into the management agreement? If Yes, include a copy of the Opinion in the Tax-Exempt Bond File. If No, contact Bond Counsel and include description of resolution in the Tax-Exempt Bond File.	☐ Yes ☐ No
4 Other Use	Was any other agreement entered into with an individual or entity that grants special legal rights to the Financed Asset?	☐ Yes ☐ No
	If answer above was “Yes,” was an Opinion of Bond Counsel obtained prior to entering into the agreement? If Yes, include a copy of the Opinion in the Tax-Exempt Bond File. If No, contact Bond Counsel and include description of resolution in the Tax-Exempt Bond File.	☐ Yes ☐ No

Item	Question	Response
5 Arbitrage & Rebate	Have all rebate and yield reduction calculations mandated in the Tax Compliance Agreement been prepared for the current year?	☐ Yes ☐ No
	If No, contact Rebate Analyst and incorporate report or include description of resolution in the Tax-Exempt Bond File.	

Bond Compliance Officer: _____

Date Completed: _____

Appendix E**CITY OF FAIR OAKS RANCH
DEBT MANAGEMENT POLICY****I. POLICY**

The City of Fair Oaks Ranch Debt Management Policy (this “Policy”) provides a framework for managing the City’s debt. This Policy sets parameters for issuing new debt, managing outstanding debt, maintaining acceptable debt levels, and preserving bond ratings to minimize borrowing costs. It guides decisions on issuing and managing debt while supporting the City’s goal of long-term financial stability.

II. SCOPE

This Policy applies to all debt instruments issued by the City regardless of funding source. Funding sources may come from ad valorem taxes, general revenues, enterprise fund revenues, or other pledged revenues for bonded indebtedness.

III. OBJECTIVES

The primary objectives of this Policy are to maintain long-term financial stability, ensure debt is used only for capital improvements and long-term assets, and not for operations. Key objectives include:

- i. Project revenues conservatively to ensure repayment.
- ii. Match debt maturities to the useful life of projects or legal limits.
- iii. Decisions will consider multiple factors and be evaluated in the context of long-term plans and goals, rather than short-term needs.
- iv. Debt service funds will be managed and invested in compliance with federal, state and local laws as well as the City’s Investment Policy.

IV. USE OF DEBT FINANCING

The City may use debt financing for the purchase of capital assets, infrastructure improvements, or additions that cannot prudently be financed by either current revenues, direct fees, or reserves. Long-term debt will not be used to fund current operating expenditures or annual operations. The term of debt issued by the City will not exceed the useful life of the capital expenditure for which the borrowing occurred. Alternative financing sources will be explored before debt is issued to limit the amount of borrowing.

Short-term debt for operations will generally be avoided, except in cases of reliable short-term repayment sources or emergencies.

V. FEASIBILITY & CAPACITY FOR DEBT

Debt should be used within the City's legal and financial capacity. City Council will consider recommendations from the City Manager and Finance Director before authorizing new debt. The Finance Director will keep the City Council and the City Manager informed of outstanding debt levels, impacts of new issuance, and long-term capacity. Debt capacity analyses may be performed as needed.

When feasible, the City will use available cash to reduce borrowing. When evaluating how to fund capital expenditures or improvements, the City will weigh both pay-as-you-go financing and debt financing. The choice of method will depend on financial capacity, market conditions, project urgency, and long-term creditworthiness.

A. Pay-As-You-Go Financing may be favored when:

- i. Projected revenues and fund balances are sufficient to fund the expenditure without materially reducing financial metrics such as cash-on-hand or the debt service coverage ratio.
- ii. Using City resources will not impair the City's credit ratings or outlook.
- iii. Additional debt could adversely impact the City's credit ratings or repayment capacity.
- iv. Market conditions or interest rates are unfavorable for issuing debt.
- v. Circumstances require deferring debt financing even if preferred.
- vi. The timing of funding for improvements remains uncertain.

B. Debt Financing may be favored when:

- i. Projected revenues and fund balance are insufficient to fund the expenditure without materially affecting cash-on-hand or coverage ratios.
- ii. Revenues available for debt service are sufficient and reliable to ensure repayment while maintaining investment-grade ratings.
- iii. Market conditions support favorable interest rates and debt issuance.
- iv. A project is legally mandated (federal/state law, settlement or administrative action) and current resources cannot meet the required time frame.
- v. A project is urgently required to address capacity needs or emergency conditions, and existing resources are not sufficient.

VI. TYPES OF AUTHORIZED DEBT

The City has several financing tools available to support capital improvements and major expenditures. The following outlines the primary types of long-term debt instruments that may be considered and the circumstances under which each may be used.

A. General Obligation Bonds

Require voter approval and are secured by property taxes. Bond proposals will be structured within the City's ability to issue and service debt under this Policy and will consider existing obligations and the five-year Capital Improvement Plan.

B. Certificates of Obligations

May be issued as allowed by state law, particularly for public works or capital improvements. Enterprise Fund projects must demonstrate the ability to support repayment from fund revenues or other pledged sources (not ad valorem taxes). Certificates do not require an election but remain subject to voter referendum.

C. Revenue Bonds

Issued for making improvements to enterprise funds that are responsible for repayment. Except as otherwise required by law, voter approval is not necessary. Revenues must meet coverage ratios defined in this Policy or required by market conditions then present, with rate adjustments made as needed to maintain compliance.

D. Capital Leases

May be used for equipment acquisitions when cost-effective or necessary due to budget constraints or vendor terms. Leasing is not preferred when cash is available unless interest savings or other factors justify. All lease agreements require City Council approval.

E. Tax Notes

May be issued for legally allowable purposes, including interim financing during construction or to manage debt service. Maturity will not exceed seven years from issuance.

F. Other Debt

Other instruments may be considered when appropriate, subject to case-by-case evaluation and guidance from the City's municipal advisors.

VII. STRUCTURE OF DEBT

In general, debt will be structured to:

- i. Stay within the City's financial capacity.
- ii. Minimize property tax impact.
- iii. Match terms to the useful life of financed assets or legal limits.
- iv. Use level or declining repayment schedules, avoiding balloon payments.

- v. Limit variable-rate exposure to reduce risk.

VIII. DEBT LIMITATIONS

The following ratios and standards serve as guidelines to preserve long-term access to capital while ensuring that debt decisions remain affordable and do not negatively impact operations. These limitations provide a framework for evaluating the impact of additional debt issuance.

A. Legal Limits

The City will comply with the Texas Constitution, Article XI, Section 5, which limits the total tax rate of cities with populations over 5,000 to \$2.50 per \$100 of assessed valuation. The City will also adhere to the Texas Attorney General's administrative policy, which generally prohibits municipalities from issuing debt if requirements exceed what can be paid from a \$1.50 maximum tax rate, calculated at 90 percent collection rate. The \$1.50 is part of the overall \$2.50 constitutional limit.

B. Self-Supported Debt

Debt issued by enterprise funds will maintain a minimum debt service coverage ratio of 1.00 on all outstanding indebtedness. For this purpose, the ratio is defined as the enterprise fund's net revenue from the prior fiscal year (per the most recent ACFR) divided by the maximum annual debt service on all outstanding enterprise fund debt, including the proposed issuance.

IX. REFUNDING AND CASH DEFEASANCE

The City shall monitor opportunities to refund debt when savings are at least 3% of outstanding costs, inclusive of issuance expenses. Refunding may also be considered for restructuring or covenant changes. Cash defeasance may be used to manage the tax rate.

X. BOND ELECTIONS

Timing of bond elections will consider authorized but unissued bonds and the five-year Capital Improvement Plan. Bond amounts recommended to voters will not exceed the City's ability to issue within seven years. Each proposal will include analysis of impacts on the City's tax rate and debt capacity.

XI. METHODS OF SALE

The City will generally sell debt through a competitive bidding process. A negotiated sale or private placement may be used when market conditions, issue complexity, or refinancing needs make those methods more advantageous. Refinancings that rely on market or interest rate timing may also warrant a negotiated or private placement approach.

Except in cases of negotiated sales or private placements, bonds will be awarded based on True Interest Cost (TIC), provided all other bidding requirements are met. TIC is defined as the rate that discounts the aggregate debt service payments over the life of the bonds to their present value as

of the delivery date.

Considerations in determining the method of sale include:

- a) Financial conditions
- b) Market conditions
- c) Complexity of the issue
- d) Transaction-specific or City-related conditions
- e) Volatility of bond yields
- f) Underwriters' familiarity with the City's credit quality
- g) Size of the issue
- h) Prior experience
- i) Risks associated with each method

XII. CREDIT RATINGS AND DISCLOSURE

The City will maintain strong relationships with nationally recognized bond rating agencies and provide timely disclosure of annual financial and other relevant information. The City will obtain a rating from at least one nationally recognized agency for all publicly sold debt to preserve or improve its bond rating, minimize borrowing costs, and maintain creditworthiness.

XIII. INVESTMENT OF BOND PROCEEDS

Bond proceeds will be invested in accordance with the City's Investment Policy and applicable bond covenants, either separately or within pooled cash.

XIV. DEBT MANAGEMENT & COMPLIANCE

A. Financial Advisor

The City may retain a financial advisor with broad municipal debt experience and diverse structuring expertise. The advisor must be in good standing with the SEC and provide objective guidance to secure the best pricing and service.

B. Underwriter

Through the financial advisor, the City may engage qualified underwriting firms. The advisor, in coordination with the City, will recommend syndicate structures best suited to each issuance.

C. Other Service Providers

The City may select other service providers as necessary to meet legal requirements and minimize debt costs.

D. Compliance

The City will comply with all bond covenants and federal, state, and local requirements. This includes timely disclosure, adherence to IRS arbitrage regulations, and use of debt proceeds

within required timeframes. Arbitrage interest earned on bond proceeds above the interest cost will be monitored to ensure compliance and preserve the tax-exempt status of City debt. The City will maintain recordkeeping and reporting systems to meet all arbitrage rebate requirements.

E. Financial Reporting

The finance department is responsible for providing annual disclosures to national information repositories, maintaining compliance with federal and state requirements, and preparing all debt-related schedules and footnotes for the City's annual financial statements.

XV. POLICY REVIEW

This Policy will be reviewed periodically by the Finance Director. All modifications require Council approval.

Appendix F

CITY OF FAIR OAKS RANCH
FUND BALANCE AND RESERVE POLICY

I. POLICY

The City maintains appropriate funds to ensure financial stability and availability of resources to meet financial commitments. Adequate fund balance and reserves position an organization to effectively respond to cash flow fluctuations caused by significant economic downturns, outside agency actions, unexpected emergencies, excessive liabilities, or legal judgments against the organization. Use of any City reserve requires City Council approval.

II. GOVERNMENTAL FUNDS – FUND BALANCE

- A. **Fund Balance** - Fund balance shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet and is intended to serve as a measure of the financial resources available in a governmental fund. The City Council shall report governmental fund balances per the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB-54). The City recognizes that healthy fund balances are crucial to the City's long-term planning.

Fund Balance Classifications – According to the GASB-54, fund balance must be allocated into one of five categories. The City complies with the following categories and statements.

- a. *Non-spendable* - Portion of total fund balance that is not in spendable form or is legally or contractually required to be maintained intact. Cash outlay for these types of items has already been made and therefore the resources represented by this fund balance category cannot be spent again. (Example: Prepaids or Inventory)
- b. *Restricted* - Portion of total fund balance constrained for specific purposes stipulated by external resource providers, such as grantors, bondholders, or higher level of government or by law or through enabling legislation. (Example: Court Technology Fund or Grants)
- c. *Committed* - Portion of total fund balance constrained to specific purposes and amounts which are internally imposed by City Council. City Council may commit fund balance for any reason that is consistent with the definition contained in GASB-54. The commitment must be in the form of formal Council action taken prior to fiscal year-end; however, the actual dollar amount may be determined in the subsequent period. Only Council can decommit funds previously committed by a separate motion and approval. (Example: One-time Contracts extending beyond the approving fiscal year)

- d. *Assigned* - Portion of total fund balance the City designates for specific purposes as expressed by the City Manager but not meeting the criteria to be reported as committed or restricted fund balance. In accordance with GASB-54, these funds are intended to be used for a specific purpose but have not received the formal approval of the City Council. Redeploying assigned resources to an alternative use does not require formal action by the governing body. (Example: Capital Expenditure for equipment)
- e. *Unassigned* – Residual portion of total fund balance not identified in one of the above-mentioned categories.

B. Order of Spending Resources – When an expenditure qualifies for use of both Restricted and Unrestricted Fund Balance, Restricted resources will be spent first. For Unrestricted resources, expenditures will generally be applied in the following order: Committed, then Assigned, and finally Unassigned.

III. GOVERNMENTAL FUNDS – RESERVES

A. General Fund Reserve Policies - The General Fund carries a high level of risk because it relies on revenue sources that can decline during economic downturns or be reduced by outside agency decisions. It is also the City's primary source of funding for unexpected events or emergencies. To protect against these risks, the City will carefully manage its General Fund reserves, which include the Emergency Reserve and the Budget Stabilization Reserve, at a combined desired level of 6 months of operating expenditures, excluding debt payments, one-time costs, and transfers for pay-as-you-go (PAYGO) capital projects.

- i. **Emergency Reserve** - This reserve shall maintain the desired level of 4 months of regular ongoing operating expenditures. For the purposes of this policy, current fiscal year's actual expenditures will exclude significant non-recurring items. This reserve shall be used to address emergencies, including but not limited to unanticipated expenditures, natural disasters, cyber events, state/federal emergencies, or acts of terror, or other lawful uses determined by City Council.
- ii. **Budget Stabilization Reserve** - This reserve shall maintain the desired level of 2 months of operating expenditures. This reserve fund, consisting of surplus revenues and unspent appropriations, shall provide for future financial stability with the intent to minimize future tax rate impact, protect against increases for services and fees, and provide flexible funding when needed to maintain the same levels of service. This reserve serves as a source of financial support for the City's budget, a safeguard to fund priorities included in the strategic plan, and as protection against service reductions during periods of declining revenue growth or economic downturns. This reserve provides the City time to reduce expenditures and/or find other ongoing revenue opportunities.

B. Funding/Replenishment of Reserves – General Fund

- i. Funding of reserve targets generally come from excess revenues over expenditures or one-time revenues.
- ii. In the event reserve levels fall below the minimum targets, a plan will be formulated to restore the reserves within two years. If projections indicate the reserve balance will be replenished within 12 months through normal operating activity, no corrective action shall be required. However, if the reserve balance is not expected to be restored within that period, the City, with Council approval, shall implement appropriate measures to replenish the balance, which may include the following:
 - Reduction of expenditures
 - Delay of capital purchases
 - Increase in fees and/or taxes
 - Use of year-end surplus

C. Other Governmental Reserve Policies

- i. **Strategic & Capital Projects Reserve** – The Strategic and Capital Project Fund shall be funded primarily through appropriations for identified projects during the annual budget process. Project budgets will be adopted as part of the City’s overall budget. Appropriations for multi-year projects shall roll forward annually until project completion. At the conclusion of each project, any surplus funds resulting from project underruns shall remain in the Fund. These balances may be applied toward future strategic or capital projects or serve as a contingency buffer for projects that exceed their original appropriations.

At the discretion of the City Council, General Fund surpluses may also be transferred into the Strategic and Capital Project Fund to provide additional capacity for future projects.

- ii. **Capital Assets and Infrastructure Replacement Reserve** - The City will maintain a reserve for capital assets and infrastructure replacement for Governmental Funds. The reserve will support funding needed for replacement of the City’s fleet vehicles, large equipment, technology assets, certain minor equipment, and building infrastructure such as HVAC systems, generators, and similar facilities-related assets. The City will target a reserve level of 110% of each asset’s cost, saved incrementally over the useful life of the asset.

IV. ENTERPRISE FUNDS – FUND BALANCE

The fund balance categories discussed above for Governmental Funds do not apply to proprietary funds according to GASB 54. While not required by GASB, the City recognizes the need to apply a fund balance and reserve policy to the proprietary funds maintained by the City as follows:

- A. Utility Fund Emergency Reserve** - The Utility Fund relies on fees and service charges to City water and wastewater customers for revenue. The Utility Emergency Reserve fund shall maintain a desired level of at least 6 months of operating expenses. For the purposes of this policy, significant non-recurring items and depreciation expense will be excluded from this calculation. This reserve shall be used to address emergencies, including but not limited to unanticipated expenditures, natural disasters, cyber events, state/federal emergencies, or acts of terror, or other lawful uses determined by City Council.

Funding of this reserve target will generally come from excess revenues over expenditures or one-time revenues.

In the event this reserve level falls below the minimum targets, a plan will be formulated to restore the reserve within two years. If projections indicate the reserve balance will be replenished within 12 months through normal operating activity, no corrective action shall be required. However, if the reserve balance is not expected to be restored within that period, the City, with Council approval, shall implement appropriate measures to replenish the balance, which may include the following:

- Reduction of expenditures
- Delay of capital purchases
- Increase in fees and/or taxes
- Use of year-end surplus

- B. Debt Service Reserve** - In addition to the reserve for operating expenses, the City shall maintain a minimum fund balance in the Utility Fund equal to or exceeding the requirements dictated by utility debt bond ordinances.
- C. Water and Wastewater Capital Projects Reserves** - These reserves are funded by the Capital Reserve Fee, which is calculated annually in accordance with City ordinance. The reserves will be utilized for major capital outlay, unforeseen projects, and compliance with government mandates related to water and wastewater capital projects.
- D. Infrastructure Improvements Reserves** - The City maintains two separate reserves, one for water and one for wastewater. These reserves are funded by the respective water and wastewater impact fees and are designated for capacity-related improvements to the City's utility systems in accordance with state law.
- E. Capital Assets and Infrastructure Replacement Reserve** - The City will maintain a reserve for capital assets and infrastructure replacement for Enterprise Funds. The reserve will support funding needed for replacement of the City's fleet vehicles, large equipment, technology assets, certain minor equipment, and building infrastructure such as HVAC systems, generators, and similar facilities-related assets. The City will target a reserve level of 110% of each asset's cost, saved incrementally over the useful life of the asset.

V. EXCESS OF RESERVES

In the event fund balance exceeds the desired minimum reserve targets, any excess balance may be appropriated by City Council once it has been determined that use of the excess will not endanger reserve requirements in future years. The City shall not use proceeds or reserves from an Enterprise fund except for expenditures within the purpose of the fund, unless those expenditures have been approved for other purposes as part of the adopted budget. Excess balance may be used in the following ways:

- A. Fund balance excess may add to the Budget Stabilization Reserve to prepare for future cost increases and/or revenue reduction expectations highlighted in the long-term financial forecast.
- B. Fund long-term accrued liabilities, including but not limited to debt service, pension, and other post-employment benefits.
- C. Appropriated to lower the amount of bonds or debt service payments (all forms of debt).
- D. Increase appropriations to fund capital projects in the Capital Improvement Plan.
- E. One-time expenditures, which do not increase recurring operating costs and cannot be funded through current revenues.
- F. Start-up expenditures for new programs approved by the City Council.
- G. In the event a balanced budget is not attainable, excess balance may be used for recurring expenditures and to achieve budget balance under the following conditions:
 - 1. The budget imbalance is expected to last for no more than one year and can be corrected with use of excess fund balance; or
 - 2. The budget imbalance is expected to continue beyond one year, provided that the use of excess fund balance will achieve balance as part of a corresponding plan to close the gap.
- H. Other lawful uses determined by City Council.

VI. POLICY REVIEW

This Policy will be reviewed periodically by the Finance Director. All modifications require Council approval.