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City of Alabaster, Alabama

Financial Policies

Overview

The City of Alabaster (the City) establishes these financial policies to provide guidance to the City's management and staff in conducting the financial activities of the City. Financial policy statements provide broad guidance and are not intended to be a detailed statement of procedures to be performed. Separate policy and procedure manuals for specific, detailed processes exist separately and are distributed to applicable City employees as necessary. Financial policies are proposed by the management staff and are presented to the City Council for approval via adoption of a Council resolution. The financial policies may be amended from time to time, as conditions change or the need for additional policies is identified.

Legal Compliance

The City's financial activities shall be conducted in accordance with the provisions of relevant federal and State of Alabama laws and regulations. Examples of such legal requirements include regulations concerning the use of borrowed monies, regulations concerning financial disclosures, State bid law, and State law governing conflicts of interest. The City's financial activities shall also be conducted in compliance with City policies that have been approved by the City Council and/or the boards of the City's component unit.

Generally Accepted Accounting Principles (GAAP)

The City's financial activities shall be accounted for and reported on in accordance with generally accepted accounting principles established for local governments within the United States. At the time of the approval of these financial policies, the primary source for GAAP for local governments is the Governmental Accounting Standards Board (GASB). If legal requirements conflict with GAAP, the Finance Department shall account for and report the transactions in accordance with GAAP and also maintain detailed subsidiary records as necessary to demonstrate legal compliance.

Internal Controls

A system of internal controls consists of all measures that management of an organization implements to protect assets from theft, loss, or misuse (both intentional and unintentional) and to ensure the accuracy of the financial statements. The management of the City is responsible for developing, monitoring, and maintaining a cost beneficial system of internal controls over all financial activities. The Finance Department shall fulfill this responsibility, under the direction of the Mayor.

The Finance Department shall assess the effectiveness of existing internal controls and make recommendations to the Mayor for improvements when necessary. If at any time the Finance Department identifies a significant weakness in internal controls, the deficiency shall be reported to the City Council and Mayor immediately. The Finance Director is responsible for evaluating the results of changes made to internal controls in order to determine if these changes have strengthened internal controls and whether the benefit of these changes to internal controls outweigh the cost.

Component Units

The Commercial Development Authority is a discretely presented component unit of the City and the Public Building Authority is a blended component unit of the City. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. Therefore, as much as is practical, the financial policies and accounting systems used for the component units shall parallel the City's to ensure accurate and timely financial data to government officials.

Financial Reporting

Annual Reports

The City's Finance Department shall prepare and publish annual financial reports for the City as required by generally accepted accounting principles (GAAP). The City's annual financial report shall include all component units required to be included by GAAP. In addition to meeting GAAP reporting requirements as administered by the Governmental Accounting Standards Board (GASB), the annual financial reports published by the City shall be prepared in a spirit of full disclosure for the benefit of the citizens of Alabaster.

Monthly Reports

The City's Finance Department shall prepare and present to City Council monthly financial reports to demonstrate the budget status of revenues and expenditures, as well as the City's financial position at the end of each month.

Interim Reports

The Finance Department shall prepare such other financial reports as requested by the City Council, Mayor, or department heads. Requests for special financial reports shall be made directly to the Finance Director. If department heads request reports that are available from the City's financial management software, the Finance Director will train the department head or selected department staff on generating such reports.

Funds Structure

The City shall use the fund basis of accounting as prescribed by GAAP. Within the funds structure requirements prescribed by GAAP, the City shall maintain the smallest number of

funds as allowed to increase efficiency and clarity of financial processes. If grant agreements state that separate funds are required, the Finance Department shall inquire of the grantor to determine whether separate accounting within an existing funds may be used to meet the requirements of the grant agreement. City Council approval shall be required to open or close any City fund. Council approval of any borrowing shall be deemed approval to open a fund to account for receipt and expenditure of the borrowing proceeds.

Interfund Transactions

Any significant interfund transaction that is not authorized by the budget shall be documented as to the amount and purpose and approved by the City Manager or Mayor. Significant interfund transactions are defined as any transfer of money between funds \$10,000 or greater. The documentation shall include a statement of whether the transferred amount is intended to be repaid and the repayment timeframe.

Fund Balance and Net Position

General Policies for Fund Balances and Net Position

It is the City's policy that all funds shall have a positive fund balance or net position. In developing the proposed budget and any budget amendments, City staff shall not propose revenue projections and budgeted expenditures that would result in a deficit fund balance or net position for any fund. If any City fund other than General Fund should have a deficit fund balance or net position at fiscal year-end, the City's General Fund shall extend a short-term loan to such fund and the City's Treasurer shall determine how to address the deficit as expeditiously as possible.

General Fund

The fund balance goal for the City's General Fund shall be 15% of the City's expenditures from the most recently available audited financial statements. The 15% goal applies to the total fund balance, including all reservations and designations of the General Fund. This goal is established in recognition that Alabama's tax structure is such that a significant amount of the General Fund's total revenues are derived from a single source, sales tax, and that sales tax is a revenue source which is highly sensitive to general and local economic conditions. This fund balance goal is a goal and is not intended to be a legal requirement. There may be economic conditions under which attainment of this goal is not possible.

Cash Management

The Treasurer shall be responsible for managing the City's cash in compliance with State law and applicable federal regulations. The Treasurer shall monitor cash balances to ensure that balances are adequate to provide for all anticipated cash disbursements. Any concerns about the adequacy of cash balances shall be reported to the City Council and Mayor immediately.

The City Council shall authorize the depositories into which City funds may be deposited; this authorization shall be documented in a Council resolution, duly adopted during a regularly scheduled City Council meeting. However, if a depository that has been authorized by the Council fails to meet criteria for such depositories imposed by State law, the Treasurer shall not maintain City accounts therein until the depository meets State requirements. When significant, non-routine deposits or withdrawals of City funds are anticipated, the Treasurer shall notify the affected depository in advance to ensure that collateralization requirements are satisfied.

Demand deposit accounts shall be reconciled monthly. Each bank account reconciliation shall be reviewed and approved in a timely manner by an appropriate management-level staff member. Such review shall be documented in writing and dated. Reconciling items will be reviewed from month-to-month for reasonableness. Unusual and continuing reconciling items shall be promptly investigated.

Investments

City funds shall be invested in accordance with State law. Priorities for City investments shall be legal compliance, liquidity, and safety of the investment. The Treasurer shall be responsible for investment of City funds, even though specific investment duties may be delegated to other staff members. Investment income shall be allocated among City funds based on the allocation of monies that comprise the investment.

Accounts Receivable

Monies due to the City for which amounts are calculable, shall be billed promptly and monitored continuously by the appropriate City staff members. Collection efforts for delinquent balances shall begin with a reasonably timed, courteous reminder and shall progress to more rigorous collection procedures which may include use of collection agencies, citations, liens against real property, and all other legal actions as deemed appropriate by the Finance Director in consultation with the City Attorney. All collection efforts shall be conducted in a legally compliant, professional, and equitable manner. The extent of collection efforts shall, however, recognize the inherent costs of collection, and the Finance Department is authorized to establish a *de minimis* delinquent account balance below which only a minimum of collection effort will be employed.

In the case of City licenses, fees, and taxes which are based on amounts self-reported by taxpayers and which are unknown to the City until tax returns are filed, the Finance Department shall endeavor to collect delinquencies for failure to file tax returns and pay the related taxes and license fees as provided by the City's license fee and tax ordinances, including the business license ordinance, and in accordance with the procedural requirements of the Municipal Court. The Finance Director may choose to waive failure to file and failure to pay penalties when deemed appropriate in extenuating circumstances, but may not waive interest calculated on late payments under any circumstances.

To encourage compliance and facilitate payment of delinquencies, the Finance Department may choose to enter into a payment agreement for delinquent taxes and licenses that can extend no

longer than one calendar year from the date of the agreement. Payment agreements must be documented in writing, signed by the taxpayer, a revenue official, and the Finance Director. In addition, all payment agreements must be notarized.

Inventories (non-capital)

Inventories of materials and supplies shall be controlled through the use of physical controls and inventory procedures that account for the receipt and issuance of inventory items. Periodic counts of inventory items should be completed by staff members at a minimum of once annually. Inventory items that are issued for use on a project that are not used for completing the work shall be returned to inventory and the amount of returned materials shall be documented. Commodities in inventory that are no longer usable shall be disposed of properly and recorded in accordance with GAAP. The disposal of surplus inventory items shall be approved by the appropriate department head. Any resources received on the disposal of surplus assets shall be returned to the fund which owned the surplus assets at the time of disposal.

The Finance Department is responsible for designing procedures and documents to account for all receipts and issuances of inventories, as well as for periodic physical counts of inventories on hand for all City departments. In developing inventory control procedures, the materiality of the cost of the inventory items will be considered together with the costs of implementing the control procedures. It is expected that inventory control procedures will be cost-beneficial. The operational requirements of the departments that maintain commodities inventories will be taken into consideration in the development of inventory control procedures.

In the event that material inventory losses are detected, such losses shall be reported to the appropriate department head, the Finance Director, and Mayor. Inventory losses shall be accounted for in accordance with GAAP. Each material loss of inventory items shall be analyzed to determine if the loss could have been prevented through stronger internal controls. Stronger controls shall be implemented if an evaluation of the improved controls projects that such would be cost-beneficial.

Capital Assets

The City shall account for its capital assets, including infrastructure assets, in accordance with GAAP as administered by GASB. All items meeting the definition of capital assets and having a cost greater than \$5,000 and an expected useful life greater than three years shall be accounted for as capital assets. The City shall maintain a detailed listing of capital assets that identifies the cost and location of each capital asset. For capital assets whose historical cost is unknown, an estimated cost shall be developed as provided by GAAP.

Department heads shall be responsible for all capital assets assigned to their respective departments. Transfers of capital assets from one department or division to another shall be reported to the Finance Department immediately upon transfer. Missing and surplus capital assets shall be reported to the Finance Department. Surplus capital assets shall be disposed of in accordance with State law and optimize City resources. All surplus of capital assets shall be approved of by City Council prior to disposal of the capital asset. Department heads are

responsible for maintaining a list of items for surplus for their respective department. Surplus requests should be submitted to the City Clerk's office in a timely manner to allow their inclusion on the agenda of a regularly scheduled City Council meeting.

Accounts Payable

The City shall record all obligations of funds prior to the issuance of orders for goods and services, to ensure effective budgetary control over expenditures. The City shall pay all legal obligations promptly upon the receipt of original billings which have been generated by the party providing the goods or performing the service. The Finance Department shall maintain documentation of all City payments in an easily retrievable manner to facilitate the resolution of accounts payable issues as well as the completion of the City's annual audit. The Finance Department is responsible for developing detailed procedures and deadlines for the processing of the City's accounts payable, and for providing training to City staff concerning accounts payable procedures and for notifying City staff of accounts payable deadlines.

Auditing Services

Consistent with Alabama Code 11-43-85, the Mayor shall engage an independent auditor to perform a financial statement audit in accordance with generally accepted accounting principles (GAAP). At least every 3 years, the Finance Director shall interview prospective candidates to ensure the City is receiving auditing services from a competent firm at a competitive price.

Revenue Administration

The City shall administer its ordinances concerning and directly collect all taxes, license fees and other revenues as allowed under State law. The Finance Department shall maintain a taxpayer database which documents the collection of such revenues and enables the prosecution of delinquent taxpayers as provided under State law and City ordinances. All revenue administration processes shall be performed in an equitable manner and all taxpayers shall be treated without discrimination. Procedures shall be established to preserve and protect the confidentiality of taxpayer information as required by State law. Taxpayer audits shall be selected by the Chief Revenue Examiner based on the results of analytical review of taxpayer data, the need to verify the validity of a refund request, credible evidence of taxpayer non-compliance, or by random selection.

The Finance Department shall conduct a revenue review at least once every four years. The purposes of the revenue review is to evaluate the City's tax structure and consider recommendations for revisions therein based on changes in economic conditions and revenue trends; and to evaluate the City's revenue ordinances to determine the need for revision based on changes in circumstances and the identification of procedures in need of improvement. Financial projections shall be used as part of the revenue review process to assist in the evaluation of the need for changes in revenue rates. Revenue reviews may be done more frequently than every four years as deemed necessary by the Finance Department or at the request of City Council.

This policy is not intended to restrict the consideration of changes in tax structure or revenue administration procedures to the revenue review. It is intended to ensure that an overall review of the revenue structure and revenue administration procedures is done once every four years.

Purchasing

All City purchasing activities shall be conducted in accordance with State law governing municipal purchases. Such activities include the maintenance of bidders' lists, the issuance of bid invitations, the receipt and opening of sealed bids, and the awarding of bid contracts. The City Clerk shall be responsible for managing the issuance of bid invitations and the opening of sealed bids, except for bids wherein the preparation of project specifications, the issuance of the bid invitations and the opening of sealed bids shall be conducted by an architectural, engineering, or other specialized consulting firm. In such exceptional circumstances, the City Clerk shall be notified by the department head prior to the issuance of the bid invitations and the City Clerk shall review and approve the bid invitation documents and bidders list prior to the issuance of the bid invitations by the consultant.

The purchase of any item with a cost of the State bid law minimum (currently \$15,000) or more, shall have notation on the purchase order detailing compliance with State bid law. In the event that a contract change order is proposed in which the change order amount is an increase in the contract of 10% or more of the original contract amount or in which the change order amount is an increase in the contract price of more than the State Public Works Project bid law amount (currently \$50,000), the change order shall be submitted to the City Council for approval. This policy shall also apply to change orders that in themselves do not constitute 10% of the original contract amount or an amount greater than the State Public Works Project bid law amount, but which, when combined with all previous change orders to that contract, produces a dollar amount that exceeds either of these thresholds (10% of the original contract amount or the State Public Works Project bid law amount).

For purchases that are not contained within a department's budget and cannot be absorbed in the department's current budget, a City Council resolution must be obtained authorizing the purchase and any necessary budget adjustments to accommodate the purchase. Any purchase in excess of the public works bid limit of \$50,000 per item that also meets the State code definition of a public works project, regardless of whether or not the purchase is budgeted for or not, shall be placed upon the City Council agenda and approved via a resolution.

Debt Management

The City's annual revenues typically are not adequate to finance all the expenditures proposed to and approved by the Council. The acquisition or construction of capital assets benefit the citizens for the long term and generally have significant costs; therefore, it is reasonable to spread the cost of such expenditures over more than one year. Borrowing is the mechanism through which the City is able to allocate the costs of large purchases so their costs can be paid from the revenues of several years. The City must weigh the benefits of these larger purchases against the costs of borrowing, which include principal, interest, issuance costs, and administrative costs.

The City shall strive to maintain conservative policies for managing the City's level of outstanding indebtedness and annual expenditures for debt repayments, as follows:

- All debt issuances will be accomplished in compliance with federal regulations, State law, City ordinances and all other applicable legislation.
- The City will engage a competent and reputable attorney specializing in municipal financing in the State of Alabama and will employ specialized attorneys as necessary for special financing arrangements.
- The City will engage a competent and reputable bond underwriter specializing in municipal financing in the State of Alabama.
- City debt will be issued only to finance the acquisition or construction of capital assets, to purchase land for future City use, or for economic development purposes. Annual operating costs, including costs of employees' personal services, will be financed from current revenues or fund equities.
- The repayment periods for long term debt issuances will not be extended beyond the expected useful life of the capital asset being acquired or the expected life of the economic development project. Debt repayment periods will be as short as feasibly possible in order to minimize interest costs and maximize flexibility for future financial planning. Financial projections shall be used to evaluate the appropriate repayment period for individual borrowings.
- If the impact of significant capital outlays proposed to be budgeted on projected ending fund equities will cause fund equity to be less than 15% of annual budgeted expenditures, other financing sources (proceeds of long-term debt) for specified significant capital outlays will be considered for inclusion in the proposed budget in order to maintain fund balance at an acceptable level. Financial projections shall be used to evaluate the effect of the repayment of such proposed borrowings on fund balances in future fiscal years.
- Capital leasing may be used for the acquisition of equipment items with an expected useful life of three years or longer and a purchase price of more than \$50,000 with the approval of the City Manager, Mayor, and City Council upon the request of the department head for whose department the equipment purchase is proposed. Lease payment terms may not exceed three years. Debt service expenditures (including principal, interest, and any related administrative costs) for capital leases will be budgeted in the department for which the equipment was purchased.
- The City will seek to obtain the highest possible credit rating from an independent rating agency and will implement all the necessary improvements to increase the credit rating of the City so long as those improvements are deemed to be cost effective for the City.

Employee Benefits

In an effort to recruit and retain well qualified employees, the City shall strive to provide a competitive compensation and a comprehensive benefits package. Employee benefit programs shall be designed to meet the needs of employees. Periodically, the City shall conduct a salary and benefits study to help ensure that the City retains its competitive position in the employment market. Close attention shall be paid to the design of the City's compensation structure and employee benefits plan to ensure that wages and benefits are attractive to current and potential future employees, that benefit costs are manageable, and that overall performance of the organization meets expectations of City management officials and City Council. The City will seek to provide competitive compensation and benefits to employees while also providing the best value possible to taxpayers.

Budgeting

The City shall develop and adopt budgets in compliance with State law. City staff shall develop a proposed annual budget as well as a five-year capital plan for the City Council's consideration. The proposed budget shall be presented to the City Council prior to the first of the fiscal year being budgeted.

The Finance Department shall develop revenue projections for the proposed budget, based on trend information available for each revenue source, knowledge of general and local economic trends, new State laws and City ordinances that may affect revenues, and other relevant factors. The Mayor shall review and revise revenue projections as necessary.

The City Council shall then engage in a priority-setting process in which each Council members assigns priorities to a list of initiatives that is developed. The Mayor will develop a consensus of the Council's priorities based on the individual Council members' priorities.

The Mayor and Finance Director will determine a budget strategy based on the revenue projections and the Council's consensus priorities and shall communicate the budget strategy to the department heads to guide the development of the departmental goals and proposed budgets. The Finance Director shall also establish procedures for development of the proposed long-term capital plan.

The Finance Director or Mayor shall compile the departments' budget requests and review for consistency with Council priorities. With support from the Finance Director, the Mayor shall review the revenue projections and budget requests to evaluate their effects on fund balance. Then, the Finance Director or Mayor shall determine the extent of reductions in proposed expenditures that may be necessary, the extent to which revenue rate increases may be necessary and the extent to which borrowing may be advisable. A long-term financial projection shall be developed to determine the long-term effects on fund balance of various revenue, expenditure and borrowing alternatives. The Finance Director or Mayor shall determine which alternatives to

employ in developing a proposed budget that meets the City's current and long-term goals and that is consistent with the City's financial policies.

The proposed budget shall be presented to the Mayor for approval by the Finance Director prior to presenting the budget to City Council. The Finance Director will then evaluate any suggestions made by the Mayor to determine what changes are necessary to the budget prior to presenting the final proposed budget to City Council for approval. The proposed budget shall be presented by the Mayor and Finance Director to the City Council for its consideration in one or more meetings during which the strategies and components of the proposed budget shall be explained and Council members may pose questions about the proposed budget. The proposed budget shall identify the key decisions affecting the budget that are to be made by the Council.

The budget adoption ordinance shall be placed on the Council agenda no later than the second regular Council meeting in September of each fiscal year. If the City Council fails to adopt a budget prior to any fiscal year-end (September 30), the provisions of State law shall be followed concerning the budget for the new fiscal year.

Budgetary control shall be at the department level, with managerial control exercised by the Finance Director or Mayor. The Finance Director or Mayor may authorize adjustments of appropriated amounts between and among the various expenditure accounts (line items) without prior approval of the City Council so long as those adjustments do not increase the total budgeted funds for the department. The City Council shall be informed of any such adjustments that are made at the next regularly scheduled City Council meeting.

A mid-year budget review shall be held after March (50% of the fiscal year elapsed). During the mid-year budget review, the approved budget may be amended by the City Council. Fourth quarter budget adjustments will be made in September as the City nears fiscal year-end. Generally, the budget will be amended by resolution only at the mid-year or fourth quarter budget review. The City Council may show its commitment to significant changes to the budget at other times during the year by approval of a resolution.

Capital Projects

Capital projects shall be managed by the department responsible for operating the project upon its completion; however, the Mayor may designate a specific department head to manage a specific capital project. The Finance Department shall be responsible for assigning project account numbers, which shall be used to accumulate all project costs for capitalization according to GAAP. The Finance Department shall prepare specialized reports as necessary to report on the financial status of all capital projects.

Contracts Management

City contracts may be executed only by the Mayor or City Administrator. Prior to the execution of City contracts, the proposed contract document shall be reviewed by the City Attorney and City Clerk, and may be reviewed by other City staff, as deemed appropriate. Originals of all executed contracts shall be routed to the City Clerk for filing. Copies of executed contracts shall be routed to affected City departments and other offices, as appropriate.