

II. ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles applicable to state and local governments. The City's accounting and reporting policies conform to these generally accepted accounting principles (GAAP). The following represent the more significant accounting and reporting policies and practices used by the City.

The modified accrual basis of accounting is followed by the governmental funds, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Interest on long-term debt is recorded when due.

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Paving assessments in the Capital Projects Funds are recorded as revenues when cash is received. The assessments are due in annual installments, including interest, over a four- to eight-year period. The assessments are measurable when assessed but are generally not available for use when assessed. The assessments not collected are recorded as deferred revenue.

All proprietary funds, and the pension trust fund, are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The accrual basis of accounting is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Expendable Trust Funds are accounted for and reported in essentially the same manner as governmental funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

B. ACCOUNTS RECEIVABLE

1. Accounting (Collection Efforts)

Accounts Receivable is an asset account reflecting amounts owed to the city from people, firms, and other governmental units.

- a. The City will use proper internal control in the handling of monies and make timely deposits of these monies. (Refer to section X. for Internal Control Policies).
- b. The City will properly and timely record the various receivables and provide for the appropriate collection methods for these receivables.
- c. The City is to collect all outstanding charges for miscellaneous services within 90 days of billing, if payment is not received within 90 days, the account may be sent to an outside agency for collection. The following requirement must be met as part of the 90-day collection policy.

30 Days

A second bill will be sent with a letter indicating that the account is past due and the recipient has 30 days to pay the balance.

60 Days

A letter will be sent with the 3rd monthly billing indicating that the account will be sent for collection if not paid within the next 30 days.

90 Days

If the account remains unpaid, a third letter will be sent indicating that the City has transferred the account to a collection agency. If the customer has filed the invoice with an insurance company, an additional 30 days will be allowed before sending the account for collection.

- d. All accounts unpaid after one year will be written off. Accounts with balances of \$1,000 or more must be approved by the City Council. Annually, Accounting will prepare a Council Resolution listing these accounts for Council action.

2. Delinquent Taxes

Taxes become delinquent on July 1 of the fiscal year in which they are levied. At that time, the City of Plano (or its agent, currently Collin County) shall render all delinquent tax accounts to an attorney for processing and collection.

3. Past Due Utility Bills

Any unpaid balance on an account is printed on the next bill as a previous balance. If an account is not paid in full, a Final Notice is mailed. If the account becomes delinquent, a "Blue Tag" will be placed on the door of the home as a courtesy, informing the individual that service will be discontinued unless the account is satisfied. If there is insufficient response to the "Blue Tag," service is discontinued, and a fee will be levied to reconnect.

C.EXTERNAL AUDIT

1. Auditor Responsibilities to the City Council

City Charter Article 3 Section 3.14: "The City Council shall cause an annual audit to be made of the books and accounts of each and every department of the city." Auditors are accountable to the City Council and will have access to direct communication with the City Council if the City staff is unresponsive to auditor recommendations or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.

2. Auditor Rotation

The City Council has deemed it advantageous, in Resolution No. 83-5-15(R), to appoint an

auditor for a five-year term with such appointment to be rotated automatically to another auditor at the end of five years.

The audit engagement shall be for five years, subject to annual review and approval by the City, the satisfactory negotiation of terms (including a price acceptable to both the City and the selected firm), and the annual availability of an appropriation.

3. Auditor Selection Criteria

The Auditor shall be selected on the basis of professional competence and experience using the following criteria:

- a. The Auditor shall be a certified public accountant licensed to practice within the State of Texas.
- b. The Auditor shall have an understanding of the City's needs and its plans for the future.
- c. The Auditor's approach shall be thorough, comprehensive, and tailored to the City's needs.
- d. The Auditor's staff to be assigned to the audit shall have specialized government auditing training and should have experience in auditing municipal governments.
- e. The audit firm shall have a demonstrated commitment to a state and local government audit practice. The firm shall have the appropriate resources available to apply to the audit engagement.
- f. The fees proposed by the audit firm shall be reasonable in view of the type and quality of services the firm will be providing. An auditor shall not be selected solely on the basis of a fee. Auditing is a professional service that should not be purchased strictly on the basis of the lowest cost.

D. FINANCIAL REPORTING

1. Reporting Entity

The financial statements of the City shall include all activities for which the City exercises oversight responsibility. The criteria considered in determining oversight responsibility includes the ability to significantly influence operations, selection of management, accountability for fiscal matters and financial interdependency. This generally includes all the funds established to conduct City business and boards or commissions appointed by City Council unless specifically excluded. Based on the application of these criteria refer to Attachment "A" for the entities that are included, and Attachment "B" for the entities excluded. Both attachment "A" and "B" will be revised when recommended by the City Manager.

2. Reporting Frequency

- a. Comprehensive Annual Financial Report (CAFR) shall be submitted annually to present the results, financial position, and operations of the City for the prior fiscal year.
- b. Comprehensive Monthly Financial Reports (CMFR) will be presented to the City Council after the close of each month. Such reports will enable the City Council to be constantly informed of the financial status of the City.

E. CAPITALIZATION POLICY – CAPITAL OUTLAY RECOMMENDED POLICY

Capital outlay or fixed asset is used to refer to land, buildings, equipment, and improvements other than buildings acquired by a government for use in the provision of goods or services to citizens. It is incumbent

upon department head managers to maintain adequate control over all of a department's assets, including its fixed assets, to minimize the risk of loss or misuse.

Not all fixed assets are required to be reported on a government's balance sheet. Specifically, fixed assets with extremely short useful lives and fixed assets of small monetary value are properly reported as an "expenditure" or "expense" in the period in which they are acquired. Fixed assets that are reported on the balance sheet are said to be "capitalized" and must meet the capitalization criteria established.

Capitalization is primarily a financial reporting issue. While it is essential to maintain control over all of a government's fixed assets, there exist much more efficient means than capitalization for accomplishing this objective in the case of smaller dollar-value fixed assets. Practice has demonstrated that fixed asset systems that attempt to incorporate data on numerous smaller fixed assets are often costly and difficult to maintain and operate.

The following criteria is established for inclusion in the capital outlay category:

1. Fixed assets should be capitalized only if they have estimated useful life of at least one year following the date of acquisition.
2. Fixed assets' capitalization threshold should be applied to individual fixed assets rather than to groups of fixed assets (e.g., desks, tables, software, etc.).
3. **The capitalization threshold for each individual item is \$1,500.**
- 4 Department head managers should exercise control over their noncapitalized fixed assets by establishing and maintaining adequate control procedures at the departmental level.
5. In the case of propriety funds, net revenue bond interest cost incurred during construction periods is capitalized when material.

F. COST ALLOCATION PLAN

Charges and fees are used to fund the provision of goods and services in a local government. Charges are voluntary payments that are used to finance traditional governmental services such as water and sewerage; recreational activities; and miscellaneous programs. The most efficient use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service.

The City will develop a plan to determine whether or not certain costs should be allocated among specific funds for the financing of traditional governmental services. The plan will be developed and reviewed on an annual basis in an effort to recover a portion of the true cost of producing specific goods and services.

ATTACHMENT “A”

CITY OF PLANO
FUNCTIONS INCLUDED WITH “ENTITY”

<u>FUND</u>	<u>DESCRIPTION</u>	<u>TYPE</u>
1	General	Governmental
3	GO Debt Service	Governmental
12	Criminal Investigation	Special Revenue
13	Grant	Special Revenue
16	Industrial Revenue Bond Authority	Special Revenue
18	Government Access/CATV	Special Revenue
21	Senior Center Facilities	Capital Projects
22	Recreation Center Facilities	Capital Projects
23	Street Enhancements	Capital Projects
24	W&S CIP - Pay As You Go	Capital Projects
25	1991 Police & Courts Facility	Capital Projects
26	Municipal Drainage CIP	Capital Projects
27	1991 Library Facilities	Capital Projects
28	1991 Fire Facilities	Capital Projects
29	Municipal Equipment	Capital Projects
31	Municipal Facilities	Capital Projects
32	Park Improvements	Capital Projects
33	Street & Drainage Improvement	Capital Projects
34	Sewer CIP	Capital Projects
35	Capital Reserve	Capital Projects
36	Water CIP	Capital Projects
37	Property Acquisition	Capital Projects
38	Dart Local Assistance	Capital Projects
39	Spring Creekwalk	Capital Projects
41	Water & Sewer	Enterprise
42	Water & Sewer Debt Service	Enterprise
43	Drainage Debt Service	Enterprise
44	W&S Impact Fees Clearing	Enterprise
45	Solid Waste	Enterprise
46	Convention and Tourism	Enterprise
47	Municipal Drainage Utility	Enterprise
48	Municipal Golf Course	Enterprise
49	Property Management	Enterprise
51	Recreation Revolving	Enterprise
52	Park Service Area Fees	Capital Projects
53	Creative & Performing Arts Fac.	Capital Projects
56	11 Reserve Fund	Special Revenue
58	PC Replacement Fund	Internal Service
61	Equipment Maintenance	Internal Service
62	Information Technology	Internal Service
63	Office Services	Internal Service
64	Municipal Warehouse	Internal Service
65	Property/Liability Loss	Internal Service
66	Information Services	Internal Service
69	Collin Co. Seized Assets	Trust and Agency
71	Equipment Replacement	Internal Service
72	Retirement Security Plan	Pension Trust
73	Memorial Library	Trust and Agency
74	Developers' Escrow	Trust and Agency

ATTACHMENT “A”, Continued

CITY OF PLANO
FUNCTIONS INCLUDED WITH “ENTITY”

76	Economic Development	Governmental-Discreet Presentation
77	Payroll	Trust and Agency
78	Health Claims	Internal Service
82	1990 G.O. Bond Clearing	Capital Projects
83	1990 C.O. Bond Clearing	Capital Projects
84	Rebate	Trust and Agency
85	1987 G.O. Bond Clearing	Capital Projects
86	1988-A G.O. Bond Clearing	Capital Projects
87	1988-B G.O. Bond Clearing	Capital Projects
88	1989-A G.O. Bond Clearing	Capital Projects
89	1989-B G.O. Bond Clearing	Capital Projects
91	1991 G.O. Bond Clearing	Capital Projects
92	1992 G.O. Bond Clearing	Capital Projects
93	1993A G.O. Bond Clearing	Capital Projects
94	1988 Revenue Bond Clearing	Capital Projects
95	1990 Revenue Bond Clearing	Capital Projects
96	1991 Revenue Bond Clearing	Capital Projects
97	Treasury Pool	Capital Projects
98	General Fixed Assets	Account Group
99	General Long-Term Debt	Account Group
101	1993A Revenue Bond Clearing	Capital Projects
102	1994 G.O. Bond Clearing	Capital Projects
103	1994 Municipal Drain Clearing	Capital Projects
104	1996 Municipal Drain Clearing	Capital Projects
105	1996 G.O. Bond Clearing	Capital Projects
106	1997 G.O. Bond Clearing	Capital Projects
107	1997 Mun. Drain Rev. Bond Clear	Capital Projects
108	1998 Mun. Drain Rev. Bond Clear	Capital Projects
109	1998 G.O. Bond Clearing	Capital Projects
110	1999 G.O. Bond Clearing	Capital Projects
190	2000 G.O. Bond Clearing	Capital Projects
210	1999 Mun. Drain Rev. Bond Clear	Capital Projects

ATTACHMENT “B”

**CITY OF PLANO
FUNCTIONS EXCLUDED FROM “ENTITY”**

DESCRIPTION

1. Plano Independent School District
2. North Texas Municipal Water District
3. Texas Municipal Retirement System
4. Plano Chamber Of Commerce
5. Plano Housing Authority
6. Community Credit Union
7. Friends of the Plano Library System
8. Crime Stoppers
9. Plano Public Library Foundation
10. City Employee Associations
11. Plano Cultural Arts Council
12. Parks Foundation
13. Heritage Farmstead Association
14. Information and Referral Center of Plano