

CITY OF WOODCREEK
FUND BALANCE POLICY

OBJECTIVE

The purpose of this document is to establish clear guidelines for the management of assets and allocation of financial resources in the City of Woodcreek. Creating financial policies is an essential part of public finance management.

By creating strategic, long-term approaches to financial management through policy we promote stability and continuity for the City and clarify the intent of the City to provide the best value for the community.

By defining the limits on the actions of the staff authorized to spend funds we create boundaries that will ensure the preservation of the City's wealth and form a framework for achieving long-term goals while balancing financial risks with the pursuit of funding public goals.

It is essential that the City maintain adequate levels of funds for general operation, investments, and mitigation of future risks such as revenue shortfalls and unanticipated expenditures.

By maintaining a structurally balanced budget, the City can ensure stable tax rates, support good bond ratings which reduces the cost of borrowing when needed, and promotes wealth retention for the City while working to achieve Capital Improvement goals.

The City of Woodcreek hereby adopts policies and procedures of accounting and managing the City funds as outlined by The Governmental Accounting Standards Board (GASB) in the Governmental Accounting Auditing and Financial Reporting (GAAFR) text.

GENERAL FINANCIAL GOALS:

1. **General Fund:** maintain significant and adequate funds to cover basic operating costs, contribute to reserves, anticipate and adjust for changes in revenue or expenditures, and provide for unanticipated yet unavoidable costs in the event of an emergency.
2. **Grants:** research and pursue optional funding methods for all Capital Improvements projects when possible.
3. **Debt:** seek to reduce and limit debt while simultaneously acknowledging that the City may need to pursue outside municipal funding options for some Capital Improvement Projects.
4. **Investment:** pursue smart and safe investments to generate additional revenue for the City as outlined in the City's Investment Policy.
5. **Economic Development:** while increasing City revenue is a goal, it must be balanced with the greater public good and the expressed interests of the Citizens as stated in the Comprehensive Plan.
6. **Accounting and Financial Reporting:** providing regular reports and good financial accounting are a primary objective and a core function of the City Manager.

7. **Long-term Financial Planning:** shall include risk management, debt reduction, identification and funding of Capital Improvements Projects, and on-going contributions to investments and reserves.
8. **Structurally Balanced Budget:** it is essential the City address over-spending and seek to maintain low operating costs given the limited revenues sources available.
9. **Capital Improvement:** planning, budgeting, project management, and asset maintenance are essential considerations for the City when developing the annual Committed Funds Balance in addition to long-term financial planning.
10. **Revenues:** the City shall seek revenue expansion but not to the detriment of the quality of life or loss of character of the City. All revenue expansion shall align with the Comprehensive Plan.
11. **Expenditures:** it is the duty of the City Manager to report to the governing body on a range of issues surrounding allocation and expenditure of funds, debt management, personnel costs, project management, and the health of investments. It is essential that regular reports are given in order to maintain a balanced budget, and that excess spending be reduced and managed immediately.
12. **Operating Budget:** the City should maintain a basic operating budget with clear identification of how City funds shall be committed throughout the fiscal year. Changes in this budget must go through a formal review process.
13. **Transparency:** the City will strive to be transparent and provide regular communications on the finances of the City and its operation to the Citizens of Woodcreek.

COMPREHENSIVE FUND BALANCE POLICIES

1) Policy on Commitment of Funds

Creating an annual operating budget or “Committed Fund Balance” must occur prior to the end of the fiscal year. Fund balance amounts will be reported as the “Committed Fund Balance” only after formal action and approval by the governing body.

If the actual dollar amount expected to be spent on an item is not known, estimates may be used to plan. For example, Capitol Projects may receive an allocation of funds in the Committed Fund Balance prior to finalizing the procurement process for a specific project. In this case, the Committed Fund Balance may be approved utilizing an estimation of expected costs providing the actual amount to be spent can be determined prior to its expenditure and accurately reported within the year-end financials.

It is the policy of The City of Woodcreek that the governing body may commit funds for any reason that is consistent with the GASB and GAAFR. This includes, but is not limited to, general operating expenses, maintenance of infrastructure, employee payroll, public relations, funding public works projects, purchasing of equipment, expansion of property or structures owned and more.

Unspent funds shall be committed to reserves at the end of each fiscal year unless the governing body determines it is essential they roll into the subsequent year’s Committed Fund Balance.

After approval, the Committed Fund Balance cannot be undone or altered without utilizing the same approval process required to commit the funds, including no less than one public hearing, two draft readings, a formal motion, and approval by a majority of the governing body.

2) Policy on Expenditure of Committed Funds

The annual operating budget including all Capital Improvement Projects and other large, planned expenditures shall operate as a Committed Fund Balance in accordance with GASB standards as outlined in the GAAFR text. There shall be no other fund balance types aside from those outlined in this Fund Balance Policy document under number five below. All funds received from ad valorem taxes, sales tax, investment dividends, permit fees, or hotel occupancy taxes shall be considered part of the City's General Revenue Fund and may be used for the purpose of creating the Committed Fund Balance and annual operating budget for the City.

Funds that are intended and committed to be used for a specific purpose as outlined in the Committed Funds Balance, also known as the annual operating budget, cannot be transferred to another budget line item or used to cover a deficit elsewhere without formal action and approval by the governing body.

Expenditures over \$1500 within the Committed Funds Balance must be reported in advance to the governing body and may be subject to approval at their discretion. This shall not include funds spent for the daily function of the City; such as personnel costs, payment of existing contracts, maintenance and use of necessary equipment, and other regular aspects of the City's basic operation.

Use of Committed Funds is governed by the Procurement Policies of the City and shall occur in accordance with that document.

3) Policy for the Creation and Use of an Unrestricted Fund Balance

The City may maintain no more than \$50,000 in an Unrestricted Fund Balance as part of the annual budget in combination with the Committed Fund Balance during any single fiscal year. Use of these funds for any purpose shall require formal action and approval by a majority of the governing body. The purpose of maintaining an unrestricted fund balance is to create an emergency reserve fund in the case of natural disaster, volatile revenue sources, or unforeseen market trends at the state or federal level. These funds are not intended to fund general expenses or cover deficits in the Committed Fund Balance due to poor management or planning.

4) Policy on Acceptable Minimal Level of Net Fund Balance

It is recommended that the City use no more than one-half of the General Fund Balance in any fiscal year to create the Committed Funds Balance, also known as the annual operating budget. This shall include any approved Capital Improvement Projects and the Unrestricted Fund Balance if one has been designated. Additionally, the City's Net Fund Balance shall not fall below \$500,000 excluding Debt Service Funds and other Special or Restricted Revenue Funds. No less

than two-months of operating costs shall remain readily accessible at all times in reserves set aside from the Committed Fund Balance in the General Fund Balance.

5) Fund Balance Classifications

A) General Fund Balance:

This is the primary operating budget of the City. This includes items in the Committed Funds Balance, the Unrestricted Fund Balance if it exists, and all reserves. This is the total amount of liquidity the City has during a single fiscal year. The General Fund Balance does not include investments or other assets; those are calculated in the Net Fund Balance below.

B) Capital Improvement Projects Funds:

Capital Improvements can be funded from the General Fund Balance or from Restricted Funds. The source of the revenue and expected costs must be outlined in the annual budget and Committed Fund Balance. Estimates may be used for planning purposes in the allocation of these resources as stipulated in item number one on this document. Expenditures of these funds must go through the City's formal procurement process and be approved by a formal motion of a majority of the governing body.

C) Debt Service Funds:

A portion of the annual revenues shall be set aside and used for debt service alone. Proper planning and management of the annual budget and Committed Fund Balance shall set aside funds for this purpose. It is the duty of the governing body and City Manager to ensure this service is properly accounted for and maintained.

D) Special and Restricted Revenue Funds:

Funds in this category include income from federal programs tied to specific infrastructure projects and the like, general bond funds, grants, and donations received that contain stipulations that they be used for a specific purpose only. These funds must be kept separate from the General Fund Balance and can only be included in the annual budget or Committed Fund Balance so long as they are shown to be restricted and used for their intended purpose alone.

E) Net Fund Balance:

This fund includes all funds, reserves, investments, assets, and debt owned by The City of Woodcreek. It is from the Net Fund Balance that all other balances come. This could also be stated as the total net worth of the City and will be used to calculate any future municipal debt services.