

City of Woodcreek, Texas

FUND BALANCE POLICY

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City by setting guidelines and parameters for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and other similar circumstances. This policy will ensure that the City maintains an adequate fund balance in the City's general fund for the purposes of:

- Providing sufficient cash flow for daily operations
- Securing and maintaining a higher investment grade bond rating
- Offsetting significant economic declines or revenue shortfalls
- Providing funds to meet unforeseen emergency expenditures
- Demonstrating a commitment to long-term financial planning objectives

General Financial Goals

- **General Fund:** maintain adequate funds to cover basic operating costs.
- **Reserves:** provide for unanticipated costs in the event of an emergency.
- **Grants:** research and pursue optional funding methods for all Capital Improvements Projects.
- **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.
- **Investment:** pursue investments to generate additional revenue for the City as outlined in the City's Investment Policy.
- **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.
- **Accounting and Financial Reporting:** provide monthly and quarterly reports and financial updates to City Council.
- **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.
- **Structurally Balanced Budget:** it is essential the City address over-spending and seek to maintain low operating costs given the limited revenues sources available.
- **Capital Improvement:** planning, budgeting, project management, and asset maintenance are essential considerations for the City when developing the annual budget.
- **Revenues:** the City shall seek revenue expansion but not to the detriment of the quality of life or loss of character of the City.

- **Expenditures:** it is the duty of the City ~~Manager~~ Administrator 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.
- **Annual Budget:** the City’s annual operating budget identifies clearly how City funds shall be expended by the City Council throughout the fiscal year.
- **Transparency:** the City will ~~strive to~~ be transparent and provide regular monthly communications on the finances of the City and its operation to the Citizens of Woodcreek. The annual adopted budget and the monthly check registry shall be posted on the city website.

Definitions

- **Fund Equity** – A fund’s equity is generally the difference between its assets and its liabilities.
- **Fund Balance** – The fund equity of a governmental fund is required to be split into the following categories for reporting purposes:
 - **Non-Spendable Fund Balance** – includes amounts that are not in spendable form or are legally or contractually required to be maintained intact.
 - **Restricted Fund Balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation.
 - **Committed Fund Balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority, that being the City Council. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
 - **Assigned Fund Balance** – comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body of by an official or body to which the governing body delegates the authority. The City Council shall express specific intent by a formal motion and vote to assign funds of the budget. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
 - **Unassigned Fund Balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose that City Council decides by formal action and vote.

Commented [1]: Is this meaning ‘city council’ or does this require the larger meaning that the word ‘government’ means?

Commented [2]: Is this the best way for this to happen? We’ve had an issue with some ‘interpretations of council’s intent’

Policy

Committed Fund Balance

The City Council is the City’s highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City’s Council meeting.

Assigned Fund Balance

The City Council ~~has authorized the City Manager as the official authorized to assign~~ the fund balance to a specific purpose by a formal action and vote as approved by this Fund Balance Policy.

Unassigned Fund Balance

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund of six (6) months of general fund operating expenditures, exclusive of capital outlay and debt services expenditures. The City considers a balance of less than six (6) months to be cause for concern, barring unusual or deliberate circumstances.

The computation of the required fund balance will occur once a year, as follows:

- The computation will occur after the audit is presented to City Council. The fund balance as of September 30 of the audit year will be compared to the budgeted operating general fund expenditures for the fiscal year following the audit.

The Council may appropriate Unassigned Fund Balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

If Unassigned Fund Balance falls below the goal or has a deficiency, the City will implement a plan to replenish the fund within one year or as soon as economic and budgetary conditions allow. The following budget strategies may be considered for implementation until fund balance has been replenished to an acceptable level:

- Reduction of expenditures to minimum levels, including, but not limited to:
 - Reduction in discretionary spending such as travel and training.
 - Implementation of a hiring freeze for non-essential positions
- Increase revenues or pursue other funding sources.
- Use operating surpluses available in other funds.
- Designate a fixed amount or a percent of operating expenditures in the next budget.
- Any combination of the above strategies or others presented for consideration by staff or City Council

Should unassigned fund balance of the general fund exceed the six (6) month level, the City will consider using such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Monitoring and Reporting

The City ~~Manager~~ Administrator will be responsible for monitoring and reporting on the City's general fund balance. The City ~~Manager~~ Administrator is directed to make recommendations to the Council on the use of general fund balance surpluses both as an element of the annual operating budget submission process and in the annual audit and financial statement preparation process.

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