

## Section II: Processes, Policies & Summaries

### *Financial Policies*

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### **Financial Policies**

As stewards of the public's resources, the City Council and City Manager ensure sound financial management of the City over the long-term. The following set of Financial Policies provides consistent guidance to financial and budget decisions. This set of well- designed policies also provides assurances to the citizens, creditors, grantors and others interested in the City's financial condition that the city is operated in a fiscally sound and prudent manner.

#### **Budget Policies**

As required by State law and by prudent financial management, the City will biennially prepare a balanced budget where projected resources meet or exceed projected needs. Additionally to be fiscally sound the budget will:

- Fund recurring operating expense with recurring revenues so that ongoing needs are not adversely impacted by the loss of one-time revenues.
- Allow for funding one-time needs with non-recurring revenues wherever possible.
- Provide sufficient resources to the Contingency Fund so that it can reasonably respond to critical unforeseen needs of the City without requiring the City to divert resources from other important services, but not to exceed the legal maximum funding of the equivalent 37.5 cents per thousand.
- Include a five-year forecast of the City's revenues and expenses so the City Council can make current budget decisions in the context of the City's long term financial conditions.
- Establish utility rates sufficient to provide net positive operating results and to meet or exceed any revenue bond coverage requirements.

#### **Reserve Policies**

Reserves provide important protections against the regular fluctuations of local economic conditions and the month-to-month variability of revenue collections. Reasonable reserves provide the working capital needed to support City operations through these cycles and should be set at a level that can sustain City operations for the most adverse conditions that can reasonably be expected. It is most useful to define reserves as a percentage of budgeted expenses so it can be readily converted to the number of days or months the City can operate without receiving additional revenues.

The City of Fife maintains its accounting records on the cash basis of accounting where revenues and expenses are only recognized when revenues are actually received and expenses when actually paid. Therefore, to properly determine the amount of the reserve in any fund, known liabilities expected to be paid from current resources will be considered as an obligation of existing cash balances (similar to the accrual basis of accounting) so that only the unobligated portion of the cash balance is used to determine the reserve amount.

## Section II: Processes, Policies & Summaries

### *Financial Policies*

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#### **General Fund**

The City will maintain an undesignated fund balance of 17% of annual budgeted General Fund expenses excluding debt service transfers (a two month reserve) in the General Fund. The General Fund may also have additional reserves.

#### **Utilities**

The Water, Sewer and Storm Drainage utilities shall maintain sufficient cash reserves to provide for seasonal variability of revenues and to allow it to operate if a bi-monthly billing cycle is disrupted for any reason.

#### **Other Funds**

The other funds of the City are used to account for restricted revenue sources provided for a specifically defined service or expense. Any reserve requirements thought prudent for operations should be determined by the City Manager as part of the budget request.

#### **Accounting & Financial Reporting Policies**

The City utilizes a “funds” accounting system wherein monies restricted for specific purposes are accounted for in separate “funds” in accordance with national accounting practices. Unrestricted monies will be accounted for in the General Fund. The City maintains its accounting system on the cash basis of accounting as permitted by the State Auditor and will use the BARS chart of accounts as required by the State Auditor. Additionally, the City complies with the systems and controls prescribed by the Office of the State Auditor who establishes procedures and records which reasonably assure safeguarding of assets and the reliability of financial reporting.

The City prepares an annual financial report using the forms prescribed by the State Auditor and is audited on a schedule determined by the State Auditor and as prescribed by State law. The City may, from time-to-time, arrange for additional audits when considered beneficial to the City’s operations. The State Auditor is required to examine the affairs of all local governments at least once every three years. The City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, the methods and accuracy of the accounts and reports of the City, and federally funded programs (grants) as required for a “single audit” under OMB A-133. Reports of the auditor’s examinations are required to be filed in the Office of the State Auditor and in the finance department of the City. The State Auditor last audited the City’s financials for fiscal year ended December 31, 2011 and received a clean audit with no significant findings of fact. Additionally, the Finance Director prepares quarterly financial reports showing the budget versus actual revenues and actual expenses and projecting year end results for the General Fund and each utility fund.

#### **Debt Policies**

The City’s ability to pledge its revenues in support of debt is a valuable “tool” for providing essential public services, but can threaten the City’s financial flexibility and the City’s credit rating if not used prudently. Excessive use of debt can also create an onerous tax burden on city property owners. Therefore, the City adopts the following policies to guide its use of debt:

## Section II: Processes, Policies & Summaries

### *Financial Policies*

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- Debt will not be used to fund operating expenses, but will be used solely to fund capital expenses (which can include city costs associated with the capital project) and long-term obligations.
- Utility debt will be secured solely by the revenues of the utility or by special assessments in the case of Utility Local Improvement Districts (ULID's) and will not ordinarily be secured by a general pledge of the City's revenues.
- The City will annually prepare Schedules of Long-term Debt and Constitutional Limitation of Indebtedness in the form prescribed by the State Auditor to report its debt outstanding and its compliance with State debt limits.
- The City will reserve at least 20% of its non-voted legal debt capacity to provide for emergency needs.
- Long-term debt will be structured in a manner so that the term of the debt does not exceed the expected useful life of the asset or improvement being funded.

In the event of extreme economic circumstances or natural or manmade disaster the City will modify these policies to ensure the safety and security of the community.

#### **Investment Policy**

The City will invest its cash balances in a manner designed primarily to ensure monies are available for their intended purposes when they are needed. That is, preservation of principle is the primary objective. With that objective in mind the Finance Director will invest only in investment instruments authorized by State statutes. Investments in the State Treasurer's Local Government Investment Pool (LGIP) are considered reasonably diversified because of the asset allocation policies of the "pool." Investment held directly by the City shall have maturities not exceeding four years.

#### **City's Response to Changing Economic Conditions**

In response to the pressures experienced during the current economic recession, the City made significant expenditure reductions. In late 2007, the City noticed a decline in sales tax revenue and responded by preparing a cost reduction plan, which included personnel layoffs and a hiring freeze in early 2008. Additional reductions were made in late 2008 and the 2009 Budget reflected lower revenue and expenditure levels. The Council was active in overseeing these changes and it established a policy to preserve General Fund reserves. As a direct result of these efforts and policy, the City continues to maintain healthy General Fund reserve levels. The City projects a General Fund balance of 17% of expenditures excluding debt service transfers for the year ending December 31, 2014.