
APPENDIX B

FISCAL AND

BUDGETARY

POLICY

APPENDIX B FISCAL AND BUDGETARY POLICY

Overview and Statement of Purpose

The City of Lucas assumes an important responsibility to its citizens and customers to carefully account for public funds, to manage City finances wisely and to plan for the adequate funding of services desired by the public.

The broad purpose of the Fiscal and Budgetary Policy is to enable the City to achieve and maintain a long-term stable and positive financial condition and provide guidelines for the day-to-day planning and operations of the City's financial affairs. The City's financial management, as directed by this Policy, is based upon the foundation of integrity, prudent stewardship, planning, accountability, full disclosure and transparency.

Policy scope generally spans areas of accounting and financial reporting, internal controls, operating and capital budgeting, revenue management, cash and investment management, expenditure control, risk and asset management, debt management and planning and forecasting concepts. This is done in order to:

1. Demonstrate to the citizens of the City of Lucas, the City's bond holders and other creditors and the bond rating agencies that the City is committed to a transparent and fiscally responsible operation;
2. Provide a common vision for financial goals and strategies for current and future policymakers and staff;
3. Fairly present and fully disclose the financial position of the City in conformity to Generally Accepted Accounting Principles (GAAP); and
4. Demonstrate compliance with finance-related legal and contractual issues in accordance with the Texas Local Government Code and other legal mandates.

Fiscal Year. The City of Lucas has adopted a fiscal year that begins on the first day of October and ends on the last day of September.

Annual Audit Requirements. Section 6.01 of the Lucas Home Rule Charter requires that at the conclusion of each fiscal year, an independent audit be conducted by a certified public accountant. The accountant selected to perform the audit shall complete no more than five (5) consecutive annual audits.

Banking

In compliance with Section 6.04 of the City of Lucas Home-Rule Charter, the City Council shall select a bank depository that will meet the needs of the City and comply with all state laws governing such depositories and the management and safeguarding of public funds. The City shall issue a request for proposals/ qualifications for bank depository services every five years, or more often if necessary.

However, said requirements shall not restrict the number of years, either cumulatively or consecutively, that any single bank depository shall be used. Depositories shall be selected based on a number of criteria include, but not limited to, ability to comply with state and local statutes, customer service, hours of operation, yield on deposits, geographic proximity to City Hall, services offered, etc.

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Annual Operating Budget

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The “operating budget” is the City’s annual financial operating plan. The annual budget includes all the operating departments of the General Fund, Capital Improvements Fund, Water Utilities Fund and Debt Service Fund.

Preparation. The City Manager shall prepare and submit to the City Council a proposed budget to cover all anticipated expenditures of the City for the succeeding fiscal year. The budget shall contain sufficient detail to garner an understanding of the programs and services being funded for the benefit of the citizens. The ultimate authority for the adoption of the annual budget rests with the City Council. The full participation by the City Council and the citizens they represent are part of the overall budget process. A copy of the proposed budget will be filed with the City Secretary when it is submitted to the City Council.

Revenue Estimates. In order to maintain a stable level of services, the City shall use a conservative, objective and analytical approach when preparing revenue estimates. The process shall include the analysis of probable economic changes and their impacts on revenues, historical collection rates and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year, which could otherwise result in mid-year service reductions.

Balanced Budget. The goal of the City is to balance the operating budgets for each fund with current revenues, whereby, current revenues match and fund on-going expenditures. Excess balances in the operating funds from previous years may be used for non-recurring expenditures, capital expenditures, retirement of debt or to increase the related fund balance.

Publication. The City will publish, in the contemporary means of information sharing a general summary of the budget, as well as the times and places the budget is available for public inspection; and after the publication, the time and place for public hearings on the budget.

Adoption. Upon finalization of the budget, the City Council will hold public hearings, and subsequently adopt the final budget by ordinance. The budget will be effective for the fiscal year beginning October 1. In the event that the budget is not enacted prior to October 1st, the preceding fiscal year budget shall be deemed adopted, which may be amended or supplemented, as the City Council deems appropriate.

Budget Control, Accountability and Amendments. To provide a method to amend appropriations, the City Council authorizes the following:

1. Line Item Transfers - Each Department Director, appointed by the City Manager, will be responsible for the administration of his/her departmental budget. This includes accomplishing the goals and objectives adopted as part of the budget and monitoring each department budget for compliance with spending limitations. Department Directors may request a line item transfer of funds within a department budget. All transfers require City Manager approval and maintain consistency with the City Councils’ intent when the budget was approved. Allocations to the personnel services category may not be transferred into other operational categories.

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2. Supplemental Appropriations - If the City Manager certifies that revenues are available in excess of those estimated in the budget, an amendment ordinance may be prepared for City Council approval. In general, supplemental appropriations outside the annual budget process will be evaluated based on the need or urgency of the request.
3. Emergency Appropriations - To meet a public emergency affecting life, health, property or the public peace, the City Council may adopt an emergency appropriation.
4. Reduction of Appropriations - If at any time during the fiscal year it appears probable that expected revenues will be insufficient to finance expenditures for which appropriations have been authorized, the City Council may adopt an ordinance to reduce appropriations.
5. Contingency Appropriations - The budget may include small contingency appropriations within designated operating department budgets. These funds are used to offset expenditures for unexpected maintenance or other unanticipated expenses that might occur during the year, including insurance deductibles, unexpected legal expenses and equipment repairs.
6. Budget Contingency Plan – This policy is intended to establish general guidelines for managing revenue shortfalls resulting from factors such as local and economic downturns that affect the City’s revenue streams. Once a budgetary shortfall is projected, the City Manager will take the necessary actions to offset any revenue shortfall with a reduction in current expenses. The City Manager may:
 - Freeze all new hire and vacant positions except those deemed to be a necessity.
 - Review all planned capital expenditures.
 - Delay all "non-essential" spending or equipment replacement purchases.
 - Reduction of fund balance – maintaining a minimum unassigned fund balance equal to 50% of current year expenditures.
 - Further Action - If the above actions are insufficient to offset the revenue deficit and the shortfall continues to increase, the City Manager will further reduce operating expenses to balance the budget. The City Manager may ask Department Directors for recommendations on reductions of service levels in order to reduce expenditures to balance the budget.

Note: Any resulting service level reductions, including workforce reductions, will be presented to and approved by the City Council.

Capital Improvement Plan (CIP)

The CIP plan outlines the major utility infrastructure, streets and drainage, facilities, parks and other improvements needed to serve the citizens, meet growth related needs and comply with state and federal regulations.

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Preparation. The Finance Director coordinates the annual update and adoption of the five-year Capital Improvement Plan (CIP) as a part of the annual budget process. The City Manager will lead the review and prioritization of capital projects for City Council consideration. The Leadership Team shall prioritize and rank projects according to the criteria listed in project criteria section. The CIP includes all costs associated with the design, rights-of-way acquisition and construction of a project, as well as the estimated operating and maintenance costs, which impacts future operating budgets. The following guidelines will be utilized in developing the CIP:

1. Identify capital improvements and major maintenance projects through system models, repair and maintenance records and growth demands.
2. Prioritize CIP projects based on input from City staff from all operational areas related to each project and its effect on operations.
3. Solicit citizen participation in formulating the identification and prioritization of the CIP.

The CIP will be submitted to City Council for approval and reviewed annually to include updated information.

Control. All capital project expenditures must be appropriated in the capital budget. The Finance Director or City Manager must certify the availability of resources before any capital project contract is presented to the City Council for approval.

Financing Programs. Recognizing that long-term debt is usually a more expensive financing method, alternative financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives which equal or exceed the average life of the debt issue. Where applicable, impact fees, assessments, pro-rata charges or other fees should be used to fund capital projects which have a primary benefit to specific, identifiable property owners.

Reporting. Periodic financial reports will be prepared to enable the Department Directors to manage their capital budgets and to enable the Finance Department to monitor and control the budget as authorized. Capital project status reports will be presented to City Council.

Performance Measures

The City Manager and Department Directors will periodically review programs for efficiency and effectiveness. Programs not meeting efficiency or effectiveness objectives shall be brought up to required standards or be subject to reduction or elimination.

Department Directors will develop program performance measures to evaluate the impact of new programs and growth on the departments. Existing programs will also be evaluated as part of the annual budget process to determine whether programs should continue to be funded and reported to council by the City Manager.

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Reporting

Summary financial reports will be presented to the City Council monthly. These reports will be in a format to enable the City Council to understand the overall budget and financial status. The City Manager will present a mid-year report to the City Council within 60 days following the end of the second fiscal quarter which updates the status of projects and related financial goals set forth in the budget.

Revenue Management

The Finance Department will develop conservative revenue forecasts based upon current and known future revenue streams. The City will strive for the following optimum characteristics in its revenue system:

Certainty. A knowledge and understanding of revenue sources increase the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budget and forecasts.

Equity. The City shall make every effort to maintain equity in its revenue system; i.e., the City should seek to minimize or eliminate all forms of subsidization between funds.

Revenue Adequacy. The City should require there be a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service.

Realistic and Conservative Estimates. Revenues will be estimated realistically, and conservatively, taking into account the stability of various revenue streams.

Administration. The benefits of a revenue source should exceed the cost of levying and collecting such revenue. Where appropriate, the City will consider the use of administrative processes of State, Federal or County collection agencies in order to reduce administrative costs.

Diversification and Stability. The City will strive to maintain a diversified revenue system with a stable source of income when feasible.

Other Considerations. The following considerations and issues will guide the City in its revenue policies concerning specific sources of funds:

1. Non-Recurring Revenues - One-time or non-recurring revenues should not be used to finance ongoing operations.
2. Property Tax Revenues - All real and business personal property located within the City will be valued at 100% of the fair market value for any given year based on the current appraisal supplied by the Collin County Appraisal District. Reappraisal and reassessment shall be determined by the Appraisal District.

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3. Investment Income - Earnings from investments will be distributed to the Funds in accordance with the equity balance of the fund from which the monies were provided to be invested.
4. User-Based Fees and Service Charges - For services associated with a user fee or charge, the direct or indirect costs of that service will be offset by a fee where possible. The City will review fees and charges annually to ensure that fees provide adequate coverage for the cost of services. The City Council will determine how much of the cost of a service should be recovered by fees and charges.
5. Intergovernmental Revenues - Grant opportunities will be examined for matching requirements and must be approved by the City Council prior to submission of the grant application. It must be clearly understood that operational requirements (on-going costs) be considered in evaluating whether or not an application for a grant funding be submitted.
6. Revenue Monitoring - Revenues will be compared to budgeted revenues on a month and year-to-date basis and variances will be investigated. Any abnormalities will be included in the monthly financial reports provided to the City Council.

Expenditure Policy

Appropriations. The Department Directors shall manage budgets to ensure that appropriations are not exceeded.

Budget Transfers. The City Manager may transfer balances within departments. A Department Director may request a transfer between line items and the City Manager may transfer between categories of items. Finance will make the adjustment upon approval from the City Manager. Requests for additional appropriations must be approved by City Council and preferably presented at the mid-year budget review.

Purchasing. All City purchases of goods or services will be made in accordance with the City's current Purchasing Policy and Procedures and in compliance with State law. Purchases are restricted to budgeted expenditures for the fiscal year in order to avoid unnecessary disbursement of funds. The budget process is extensive and includes submissions of requests for appropriations to the City Manager as well as various workshops where City Council reviews the proposed expenditures for the subsequent fiscal year. The City Council holds public hearings and may add to, subtract from, or change proposed appropriations. This process promotes the efficient and effective use of public funds. Departments are required to generate purchase orders that need to be approved by the Department Director or Director Designee before processing for payment. This procedure contributes to the minimization of duplicated expenses as it encumbers funds for future payments for the total amount of the goods received or services rendered. The Finance Director shall review and approve proposed procurement actions to avoid unnecessary or duplicative purchases.

Prompt Payment. All invoices approved for payment by the proper City authorities shall be paid within thirty (30) calendar days of receipt of goods or services or invoice date, whichever is later in accordance with State law. The City will take advantage of all purchase discounts, when possible.

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Payment Processing. The City will strive to process payments in the most efficient method keeping in mind the safety of such transactions and complying with internal control practices. The City will post all accounts payable transactions on the City's website to perpetuate governmental transparency.

Staffing

The City's goal as an employer is to attract and retain quality employees who provide exemplary public service to our community in an effective and efficient manner.

Adequate Staffing. Staffing levels will be adequate for the operations and programs of the City to be conducted efficiently and effectively. In order to provide continuing services to the community, as well as add new services as deemed appropriate based on recommendations from the City Manager and supported action by the elected officials, staffing levels will be evaluated regularly to determine workloads. Workload allocation alternatives, such as contract labor and contracted services, will be explored before adding additional staff.

Market Adjustments. The City shall utilize comparative data from selected benchmark cities. The City Council may fund market adjustments annually as part of the budget process. The City Council has selected Celina, Fairview, Fate, Melissa, Parker, Prosper, Sunnyvale and Trophy Club as its benchmark cities. The City Council may also choose to make changes to the benchmark cities by adding or deleting municipalities, as well as using data from other sources and consultants, as a reference for making market-based adjustments. Market based adjustments are based upon the job duties and job descriptions of the position, not on performance of the employee within the position.

Merit Adjustments. The City utilizes a merit-based pay plan as a part of the overall compensation system. City Council may fund merit increases annually during the budget process to aid in retaining and rewarding quality employees for productivity and job performance. These merit-based adjustments are recommended by the employee's immediate supervisor and reviewed by both the Department Director and the City Manager. Employees may receive a merit increase upon approval of the City Manager based upon performance, or when other situations warrant this type of increase, such as a reclassification due to additional job duties.

Cost of Living Adjustment (COLA). In order to sustain employee compensation levels within the competitive job market, the City may fund an annual COLA for all regular employees not included in a defined pay plan. The COLA will be based on the Consumer Price Index-Urban Wage Earners and Clerical Workers for the south urban area.

Economic Development

The City shall initiate, encourage and promote economic development that will strengthen the local economy and tax base that also takes into account and supports the rural character of the community.

Commitment to Expansion and Diversification. The City shall encourage and participate in economic efforts to expand the City of Lucas's economy and tax base, to increase local employment and to invest when there is a defined, specific long-term return to the community. These efforts shall focus on new areas, as well as other established sections of the City where economic development can generate additional jobs, sales tax, property tax and other economic benefits.

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The City's economic development program shall seek to expand the non-residential share of the tax base to decrease the tax burden on residential homeowners.

Cost/Benefit of Incentives for Economic Development. The City will use due caution in the analysis of any incentives that may be used to encourage development. A cost/benefit (fiscal impact) analysis will be performed as part of the evaluation.

Coordinate Efforts with Other Jurisdictions. The City's economic development program shall encourage close cooperation with other local jurisdictions to promote the economic well-being of this area.

Intergovernmental Relations

The City shall coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing government services on an equitable basis and support appropriate favorable legislation at the state and federal levels.

Interlocal Cooperation in Delivery of Services. In order to promote the effective and efficient delivery of services, the City shall work with other local jurisdictions to share on an equitable basis the cost of services, to share facilities and to develop joint programs to improve service to its citizens.

Legislative Program. The City shall cooperate with other jurisdictions to actively oppose any state or federal regulation or proposal that mandates additional City programs or services and does not provide the funding necessary for implementation.

Capital Maintenance and Replacement

The City recognizes that deferred maintenance increases future capital costs. Therefore, a portion of all individual funds with infrastructure should be budgeted each year to maintain the quality within each system.

Repair and Maintenance. The City will utilize a maintenance program for all City assets to maximize the useful life. On-going maintenance and major repair costs are generally considered repairs and are not capitalized for accounting purposes. They include such items as routine maintenance and repairs of building and equipment, street patching and seal coating and other general maintenance.

Streets Capital Maintenance and Replacement. The City will provide annual funding for the Public Works Department to use for a street maintenance program.

Water Utilities Fund Maintenance and Replacement. The City will provide annual funding for the Public Works Department to use for the Water Utilities Fund maintenance program.

Building Capital Replacement and Maintenance. The City will provide annual funding for major maintenance on its buildings such as air conditioning replacements, flooring, painting and other maintenance.

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Technology. The City will fund the maintenance and replacement of personal computers and network servers. Major replacements for computer systems will be anticipated and included in the annual budget process.

Fleet and Equipment. The City will anticipate replacing existing cars, trucks, tractors, backhoes, trailers and other equipment as necessary.

Accounting, Auditing and Financial Reporting

Accounting and Financial Reporting. The City is responsible for the internal and external accounting and reporting of its financial affairs. The City's Finance Director is responsible for establishing and managing the accounting and financial reporting systems and assuring procedures are in place to properly record financial transactions and report the City's financial position.

Audit of Accounts. In accordance with the Home Rule Charter Article VI, Section 6.01, an independent audit of the City accounts will be performed annually by a certified public account. The auditor is retained by and is accountable directly to the City Council and shall not complete more than five (5) consecutive audits.

External Reporting. Upon completion and acceptance of the annual audit by the City's auditors, the City shall prepare a written Comprehensive Annual Financial Report (CAFR) which shall be presented to the City Council within 180 calendar days of the City's fiscal year end. The CAFR shall be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and shall be presented annually to the Government Finance Officer Association (GFOA) for evaluation and consideration for the Certificate of Achievement in Financial Reporting. If circumstances preclude such timely reporting, the Finance Director will inform the City Manager and City Council the reason for the delay.

Internal Reporting. The Finance Department will prepare internal financial reports, sufficient to plan, monitor and control the City's financial affairs.

Risk and Asset Management

Risk Management. The City will utilize a safety program, an employee wellness program and a risk management program to prevent and/or reduce claims and losses. The City will utilize an insurance program(s) where appropriate to minimize the financial impact of claims or losses. The City may also consider contracting to third parties for services the City does not have the capability to effectively provide.

Cash Management. The City's cash flow will be managed to maximize the cash available to invest. Such cash management will entail the centralization of cash collections. The City shall maintain a comprehensive cash management program to include the effective collection of accounts receivable, the prompt deposit of receipts to the City's depository, the payment of obligations, and the prudent investment of idle funds in accordance with this policy.

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Investments. The City Council has formally approved a separate Investment Policy for the City of Lucas that meets the requirements of the Public Funds Investment Act (PFIA), Section 2256 of the Texas Government Code. This policy is reviewed annually by the City Council and applies to all financial assets held by the City.

Fixed Assets and Inventory. The basic goal and objective of this policy is to define and describe a set of standard procedures necessary to record and control the changes in the fixed asset system in accordance with Generally Accepted Accounting Principles.

Computer System/Data Security. The City's Information Services Consultant shall provide security of its computer/network system and data files through security systems that will include but not be limited to, a firewall, intrusion prevention appliance, and a two-tier spam/virus protection system.

1. Physical location – The location of computer/network systems shall be in locations inaccessible to unauthorized personnel.
2. Access – The Information Services Consultant will be responsible for setting up access to the City's network and files. The Finance Director shall have responsibility for setting security levels for employees within the financial system for internal control purposes, however these levels may be administered by the Consultant.
3. Remote access – The Information Services consultant will set up employees for Virtual Private Network (VPN) access upon approval from their Department Director.
4. Data backup – Data backups will be conducted daily. The daily backups will remain on-site on a dedicated storage device with redundant backups stored offsite.
5. Inventory – Records of all computer equipment purchased shall be the responsibility of the Finance Department. Routine inventories will be conducted to ensure safeguarding of these assets.

Debt Management

The City of Lucas recognizes the primary purpose of capital facilities is to support provision of services to its taxpayers. Using debt financing to meet the capital needs of the community must be evaluated according to efficiency and equity. Efficiency must be evaluated to determine the highest rate of return for a given investment of resources. Equity is resolved by determining who should pay for the cost of capital improvements.

In meeting demand for additional services, the City will strive to balance the needs between debt financing and “pay as you go” methods. The City realizes that failure to meet the demands of a developing community may inhibit its continued economic viability, but also realizes that too much debt may have detrimental effects on the City's long-range financial condition.

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Use of Debt. Long-term debt financing will be considered for capital improvements of which future citizens will benefit. Alternatives for financing will be explored prior to debt issuance and may include, but are not limited to:

1. Grants
2. Use of Reserve Funds
3. Use of Current Revenues
4. Contributions from developers and others
5. Leases

When the City utilizes long-term financing, it will ensure that the debt is soundly financed by conservatively projecting revenue sources that will be used to pay the debt. It will not finance the improvement over a period greater than the useful life of the improvement and it will determine that the cost benefit of the improvement, including interest costs.

Types of Debt:

1. General Obligation Bonds (GO's) - General obligation bonds must be authorized by a vote of the citizens of Lucas. They are used only to fund capital assets of the general government and are not to be used to fund operating needs of the City. The full faith and credit of the City as well as the City's ad valorem taxing authority back general obligation bonds.
2. Revenue Bonds - Revenue bonds will be issued to provide for the capital needs of any activities where the capital requirements are necessary for the continuation or expansion of a service. The improved activity shall produce a revenue stream to fund the debt service requirements of the necessary improvement to provide service expansion. The average life of the obligation should not exceed the useful life of the asset(s) to be funded by the bond.
3. Certificates of Obligation, Contract Obligations (CO's) - Certificates of obligation or contract obligations may be used to fund capital requirements not otherwise covered either by general obligation or revenue bonds. Debt service for CO's may be either from general revenues (tax-supported) or supported by a specific revenue stream(s) or a combination of both. Typically, the City may issue CO's when the following conditions are met:
 - a. When the proposed debt will have minimal impact on future effective property tax rates;
 - b. When the projects to be funded are within the normal bounds of City capital requirements, such as for roads, parks, various infrastructure and City facilities; and
 - c. When the average life of the obligation does not exceed the useful life of the asset(s) to be funded by the issue.
 - d. Certificates of obligation will be used with prudent care and judgment by the City Council. Every effort will be made to ensure public participation in decisions relating to debt financing.

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4. Tax Anticipation Notes - The City may issue debt securities for a maximum maturity of seven years to provide immediate funding for an expenditure in anticipation of future tax collections.
5. Internal borrowing between City funds - The City may authorize the use of reserves as “loans” between funds. The borrowing fund will repay the loan at a rate consistent with current market conditions. The loan will be repaid within ten (10) years. The loan will be considered an investment of working capital reserves by the lending fund.

Method of Sale. The City will use a competitive bidding process in the sale of bonds unless conditions in the bond market or the nature of the issue warrant a negotiated bid. In such situations, the City will publicly present the reasons for the negotiated sale. The City will rely on the recommendation of the financial advisor in the selection of the underwriter or direct purchaser.

Disclosure. Full disclosure of operating costs along with capital costs will be made to the bond rating agencies and other users of financial information. The City staff, with assistance of the financial advisor and bond counsel, will prepare the necessary materials for presentation to the rating agencies and will aid in the production of the Preliminary Official Statements.

Federal Requirements. The City will maintain procedures to comply with arbitrage rebate and other Federal requirements.

Debt Structuring. The City will issue bonds with maturity not to exceed the useful life of the asset acquired. The structure should approximate level debt service unless operational matters dictate otherwise. Market factors, such as the effects of tax-exempt designations, the cost of early redemption options, will be given consideration during the structuring of long-term debt instruments.

Debt Coverage Ratio. Refers to the number of times the current combined debt service requirements or payments would be covered by the current operating revenues. The City will maintain a minimum debt service coverage ratio of 1.0 times.

Bond Reimbursement Resolutions. The City may utilize bond reimbursements as a tool to manage its debt issues, due to arbitrage requirements and project timing. In so doing, the City uses its capital reserve "cash" to delay bond issues until issuance of bonds is favorable and beneficial to the City.

Other Funding Alternatives. The City will consider alternative funding opportunities prior to issuing debt.

1. Grants - Grants will be examined for matching requirements and the source of those requirements identified. It must be clearly understood that any resulting operation requirements of the grant could be discontinued once the term and conditions of the project have been terminated. The City Council must authorize acceptance of any grant funding and the following should be considered:
 - a. The City shall seek to obtain those grants consistent with the City’s current and future priorities and objectives.

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- b. The City Manager and Finance Director shall review grant submittals to determine in-kind match, as well as their potential impact on the operating budget, and the extent to which they meet the City's objectives. If there is a cash match requirement, the source of funding shall be identified and approved by City Council prior to application. Once the application is approved, the City Council sets the grant budget.
 - c. The City shall recover indirect costs to the maximum allowable by the funding source. The City may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.
 - d. The City shall consider terminating grant-funded programs and associated positions when grant funds are no longer available, unless alternate funding is identified.
2. Leases - The City may authorize the use of lease financing for certain operating equipment when it is determined that the cost benefit of such an arrangement is advantageous to the City.
3. Use of Fund Balance and Reserve Funds - The City may authorize the use of reserve funds to postpone or eliminate a proposed bond issue. This may occur due to fund balances in excess of the reserves necessary to maintain a sound financial position. Reserve funds may be replenished upon issuance of the proposed debt. Unappropriated fund balance in excess of operating reserves may be used for one-time projects, but not on-going operating expenses.

Financial Conditions, Reserves and Receivables

The City of Lucas will maintain minimum reserves in the fund balances to provide a secure, healthy financial base for the City.

Liabilities and Receivables. Procedures will be followed to maximize discounts and reduce penalties offered by creditors. Current liabilities will be paid within 30 days of receiving the invoice or according to the terms of the agreement with the vendor. Accounts Receivable procedures will target collection for a maximum of 30 days of service. The Finance Director is authorized to write-off non-collectible accounts with outstanding balances of \$100 or under that remain unpaid after one year provided proper delinquency procedures have been followed in attempting to collect the delinquencies and approval from the City Manager. An itemized list will be prepared annually and presented to council for approval to write-off non-collectible accounts with outstanding balances in excess of \$100. Efforts to collect written off accounts will continue taking into consideration the cost vs. benefits of further collection efforts.

Capital Project Funds. Every effort will be made for all monies within the Capital Project Funds to be expended within 36 months of receipt. The fund balance will be invested and income generated will offset increases in construction costs or other costs associated with the project. Capital project funds are intended to be fully expended, with any unexpected excess to be transferred to the Debt Service fund to service project-related debt service.

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General Debt Service Funds. Revenues within this fund are stable, based on property tax revenues. Balances are maintained to meet contingencies and to make certain that the next year's debt service payments may be met in a timely manner.

Investment of Reserve Funds. The reserve funds will be invested in accordance with the City's investment policy.

Internal Controls

Control Environment. City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

Department Directors Responsibility. Each Department Director is responsible for ensuring that good internal controls and adherence to the City's Fiscal and Budgetary Policy are followed throughout their department and that all independent auditor internal control recommendations are addressed. Departments will develop and periodically update written internal control procedures.

Accounting System. Internal controls are safeguards the City implements to protect sensitive financial information. Internal controls are implemented at both the organizational and transaction levels of the City's accounting information system. Organizational level controls ensure the City follows all applicable standards, laws, and regulations. Transactional level controls ensure each accounting process achieves the City's goals and objectives.

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 for fund balance. This policy will replace and rescind Resolution # R-2011-09-00376 Fund Balance Policy adopted September 1, 2011. 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 similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations.

GASB 54. In order to comply with the Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the fund balance section of the balance sheets of the governmental funds has been modified. This change has been made in order for the City's new fund balance components to focus on "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent" (GASB Statement No. 54, paragraph 54). Previously, the fund balance section focused on whether these resources were available for appropriation. It also distinguished the unreserved fund balance from the reserved fund balance. In order to show compliance with GASB Statement No. 54, however, the components of the new fund balance include the following line items: a.) non-spendable fund balance; b.) restricted fund balance; c.) committed fund balance; d.) assigned fund balance, and e.) unassigned fund balance. The implementation of these new components is intended to decrease confusion and help serve the needs of the financial statement users.

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Definitions.

1. Non-spendable fund balance (inherently not spendable) - Includes amounts that are not in a spendable form or are required to be maintained intact. Examples include inventory and permanent funds.
2. Restricted fund balance (externally enforceable limitations on use) - Includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and child safety fees.
3. Committed fund balance (self-imposed limitation set in place prior to the end of each fiscal year) - 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. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
4. Assigned fund balance (limitation resulting from management's intended use) - Comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. 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.
5. Unassigned fund balance (residual net resources) - This is the excess of total fund balance over non-spendable, restricted, committed, and assigned fund balance fund balance. Unassigned amounts are technically available for any purpose.

Assigned Fund Balance. The City Council has authorized the City Manager as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Minimum Unassigned Fund Balance. It is the goal of the City to achieve and maintain a minimum unassigned fund balance in the general fund equal to 50% of expenditures. The City considers a balance of less than 25% to be cause for concern, barring unusual or deliberate circumstances.

If the unassigned fund balance falls below the goal or has a deficiency, then staff will develop a plan for City Council that addresses the shortfall.

Order of Expenditure of Funds. When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. Spendable fund categories in order of most restricted to least restricted are Restricted, Committed, Assigned, and Unassigned.

APPENDIX B
FISCAL AND BUDGETARY POLICY

Direct Costs and Indirect Costs

Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity or any other institutional activity, or that can be directly assigned to activities relatively easily with a high degree of accuracy.

Indirect costs are costs that are not directly accountable to a cost object (such as a particular project, facility, function or product). Indirect costs are those costs that are incurred for common or joint objectives and, therefore, cannot be specifically identified with a particular sponsored project, instructional activity, or any other institutional activity.

Indirect costs include, but not limited to:

- Services of the accounting staff and administrators
- Salaries of personnel engaged in a broad range of departmental support activities
- Cost of utilities for building housing multiple functions