

## BUDGET GUIDE

The City of Stanwood budget includes the financial planning and legal authority to obligate public funds. Additionally, the budget provides significant policy direction by the City Council to the staff and community. As a result, the City Council, staff and public are involved in establishing the budget. The budget document provides four functions:

1. Policy Document – The budget functions as a policy document in that the decisions made within the budget will reflect the general principles or plans that guide the actions taken in the future. As a policy document, the budget makes specific attempts to link desired goals and policy direction to the actual day-to-day activities of City staff.
2. Operational Guide – The budget of the City reflects its operations. Activities of each City function and organization have been planned, discussed, formalized and described in the following sections. The process will help to maintain an understanding of the various operations of the City and how they relate to each other and to the attainment of the policy issues and goals of the City Council.
3. Link with the General Public – The budget provides a unique opportunity to allow and encourage public review of City operations. The budget describes the activities of the City, the reason or cause for those activities, future implications, and their direct relationship to the citizenry.
4. Legally Required Financial Planning Tool – The budget as a financial planning tool has been its most traditional use. Preparing and adopting a budget is a State law requirement of all cities as stated in Title 35A of the Revised Code of Washington (RCW). The budget must be adopted as a balanced budget and must be in place prior to the beginning of the City's fiscal year. The budget is the legal authority to expend public monies and control those expenditures by limiting the amount of the appropriation at the fund level. The revenues of the City are estimated, along with the available cash carry-forward, to indicate funds available.

## BUDGET PROCESS

The City of Stanwood operates on a biennial basis. It utilizes an incremental budgeting approach that assumes, for most functions of government, that the current biennium's budget is indicative of the base required for the following biennium. Any increases are incremental and are either based on need, emerging issues, Council goals, and available resources.

The budget process begins in late spring of even-numbered years with departments preparing requests for new staff, programs, or significant increases to their current budget that will address emerging issues and other operational needs. The city administrator and finance director conduct an analysis of the departmental base budgets and revenue outlook for the coming year to determine the availability of funds for any new initiatives. During the summer the departments also prepare their base budgets. These budget requests are submitted to the finance director for review. By late summer the Mayor reviews each department's budget request and develops a preliminary budget recommendation.

As mandated by RCW 35A.33.135, the first requirement is that the Mayor submit estimated revenues and expenditures to the City Council on or before the first Monday in October. The

preliminary budget is presented to the City Council in early October. Public hearings are held to obtain taxpayer's comments, and Council budget workshops are held throughout the fall. The Council makes its adjustments to the preliminary budget and adopts by ordinance a final balanced budget no later than December 31<sup>st</sup>. The final operating budget as adopted is published, distributed, and made available to the public during the first quarter of the following year.

After the budget is adopted, the City enters a budget implementation and monitoring stage. Throughout the year, the expenditures are monitored by the finance director and department directors to ensure that funds are within the approved budget. The finance director provides financial updates to the City Council to keep them current with the City's financial condition. Any budget amendments made during the biennium are adopted by City Council ordinance. These amendments allow for necessary adjustments to the budget that could not have been planned for during the normal budgeting process. Typical amendments include administrative adjustments, carry forward appropriations resulting from projects that were not completed at biennium end, and new grant revenues awarded after budget adoption.

The Mayor is authorized to transfer budgeted amounts within a fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, or other conditions of employment must be approved by the City Council.

## **BASIS OF ACCOUNTING AND BUDGETING**

### **Basis of Presentation-Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City uses twenty-nine separate funds. Each fund has a specific role and responsibility. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. Revenues and expenditures within each fund are closely monitored to ensure accuracy, accountability, and efficiency. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Stanwood.

### **Governmental Fund Types**

Governmental funds are used to account for activities typically associated with state and local government operations. There are four governmental fund types used by the City of Stanwood.

#### **General Fund**

This fund is the primary fund of the City of Stanwood. It accounts for all financial resources except those required or elected to be accounted for in another fund. It is used to meet the basic services that your local government provides. The general fund covers police, fire, EMS, parks, administration, engineering, planning, community development, finance, legal, and legislative services. Major revenue sources include taxes, fees, licenses and permits, and intergovernmental revenues (federal, state and county).

#### **Special Revenues Funds**

These funds account for revenues that are legally restricted or designated to finance particular activities. The street fund is one example of a special revenue fund. Gas taxes are collected into the street fund and must be used for the maintenance of our arterial streets, sidewalks, and trails.

### Debt Service Funds

These funds account for financial resources which are designated for the retirement of debt. The City's debt service funds account for annual service requirements of general obligation fund debt. The general obligation bonds were voter approved bonds used to refund pre-existing general obligation debt for previous parks, police and fire capital projects. The general obligation bonds will be paid off in 2020.

### Capital Project Fund

This fund accounts for financial resources that are designated for acquisition or construction of general government capital projects. A portion of the revenues received into these funds (such as real estate excise taxes or REET) are restricted by law generally to be used for capital improvements. Similarly, impact fees received for streets, fire, and parks are maintained in separate capital projects funds and are used for capital improvements as restricted by law.

## **Proprietary Fund Types**

Proprietary funds are used for services to the general public where all or most of the costs, including depreciation, are to be financed or recovered from users of such services. There are two generic fund types in this category.

### Enterprise Funds

These funds account for operations that provide goods or services to the general public and are funded primarily by user charges. The water utility fund, the sewer utility fund, and the storm drainage fund are enterprise funds.

### Internal Service Fund

These funds account for operations that provide goods and services to other departments or funds of the City on a cost-reimbursement basis. The utility equipment replacement funds are internal service funds. The utility equipment reserve fund collects annual user fees from the individual utility operations with vehicles and major equipment. These fees are used to replace vehicles or equipment based on a predetermined schedule.

With the exception of the general fund, money within each fund cannot be used in other funds. Many of the revenues received in each fund are restricted in use by law and/or legislative action. Funds may make interfund loans to other funds. However, any interfund loan must be paid back based on a predetermined schedule and must pay prevailing interest rates (usually the interest rate earned through the Local Government Investment Pool). The general fund can make transfers to other funds if money is available.

## **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The City of Stanwood uses the cash basis of accounting. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the same year as budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

## **Budgets and Budgetary Accounting**

Annual appropriated budgets are adopted for all funds. These funds are budgeted on the cash basis of accounting. The financial statements include budgetary comparisons for all funds.

Budgets are adopted at the fund level that constitutes the legal authority for expenditures. Annual appropriations for all funds lapse at the fiscal period end.

With the exception of Fund No. 630, Suspense Fund, all funds that are included in the City's audited financial reports are also included in this budget document.