FOUNTAIN INN
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AGENDA

COUNCIL RETREAT

Saturday, February 19, 2022 - 9:00 a.m.

Meeting Location: Fountain Inn High School, 644 Quillen Avenue, Fountain Inn - Room 2104
If front door is locked, please call 864-237-3726 for entry

1. Welcome
2. 2021 Year In Review - Shawn Bell
3. Goal Setting Session - Trey Eubanks
4. Finance Update - Naomi Reed
    a. Budget Process
    b. FY 21 Audit Update
5. Council Discussion
6. Adjourn

FOIA Compliance – Public notification of this meeting has been published, posted, and distributed in compliance with the Freedom of Information Act and the City of Fountain Inn's requirements.

1 CITY OF FOUNTAIN INN FINANCE DEPARTMENT

The City of Fountain Inn Finance Department is responsible for systematically aligning resources with Council priorities and strategic needs and goals. This department assist with preparing and developing the budget, prepares the annual budget presentation to Mayor and Council and provides the City Administrator, Department Heads, and division leaders with tools for reporting and monitoring actual expenditures compared to the budget.

2 BASIC CONCEPTS

ACCOUNTING STANDARDS

The City of Fountain Inn follows the Governmental Accounting Standards Board (GASB) guidelines of generally accepted accounting principles and practices.

FUND

Fund accounting is the method of classifying resources into categories according to the purpose of use. Each fund is self-balancing and has separate assets, liabilities, and a fund balance.

FUND TYPES

Funding sources include agreements and practices associated with the acquisition, distribution, and use of the funds

The City utilizes fund accounting to account for the distinct functions and activities of the City. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid fiscal management by segregating transactions related to certain government functions or activities. The City further identifies divisions of each fund as departments. A department is an administrative division of the city that has management responsibility for an operation, or a group of related operations, within a functional area. Examples of departments within the General Fund would include the Police Department, the Fire Department, Finance, Public Works, etc. Departments are then divided further into personnel, non-personnel and capital outlay categories. The objects appear in the budget as "line items".

The City uses the modified accrual method of accounting as the budgetary basis for governmental funds, which include the General Fund, Special Revenue Funds, Debt Service, and Capital Project Funds. Under this method, revenues are recognized in the period they become measurable and available to finance expenditures of the period and expenditures are recorded when incurred except for principal and interest on long term debt, which are recorded when due. The basis of budgeting is identical to the basis of accounting used the audited fund financial statements.

The City uses the accrual method of accounting as the budgetary basis for proprietary funds, which include the Fountain Inn Natural Gas and Fountain Inn Sewer Enterprise Funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The following are exceptions from the budgetary basis to the audited fund financial statements:

- Capital outlay is budgeted as an expenditure in the year purchased.
- Depreciation is not budgeted.
- Proceeds from the issuance of debt are considered to be revenues, not an increase in liabilities.
- Salaries and benefits are budgeted as an expenditure; however, for the gas fund, the portion of the salaries and benefits related to new construction for the natural gas system is capitalized in the audited financial statements.

The City uses the accrual method of accounting as the budgetary basis for fiduciary funds. The budgetary basis is identical to method used in the audited financial statements.

FUND BALANCES

For the purposes of accounting, fund balances are found by subtracting liabilities from assets. A positive fund balance means there are more assets than liabilities; a negative fund balance means there are more liabilities than assets. For the purposes of budgeting, fund balances are the excess of a fund's resources over its planned expenditures.

To maintain and improve upon the City's credit rating and meet seasonal cash flow shortfalls, the budget shall provide for a minimum Unassigned General Fund Balance (the "Fund Balance") of 20% of Operating Expenditures. Additionally, the City maintains a Fund Balance target of 25%. The Unassigned Fund Balance shall be exclusive of all reserves not anticipated to be readily available for use in emergencies and contingencies.

Should the Fund Balance fall below 20% of revenues, the City Administrator shall prepare and submit a plan for expenditure reductions and/or revenue increases to the City Council.

In the event the Fund Balance is above 25%, the difference may be used to fund the following activities:

1. One-time capital expenditures which do not increase ongoing City cost.

2. Other one-time costs; and

3. Ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections or revenue and expenditures.

If, at the end of a fiscal year, the Fund Balance falls below 20%, then the City shall rebuild the balance within one year.

The City shall always maintain a minimum Unassigned Fund Balance of 10% of the most recent-audited current fiscal year Hospitality and Accommodations Tax Revenues.

Generally, the Fund Balance levels are dictated by:

1. Cash flow requirements to support operating expenses.

2. Relative rate stability from year-to-year for special revenue and enterprise funds.

3. Susceptibility to emergency or unanticipated expenditure.

4. Credit worthiness and capacity to support debt service requirements.

5. Legal or regulatory requirements affecting revenues, disbursements, and fund balances; and

6. Reliability of outside revenues.

OPERATING BUDGET

The Operating Budget is the budget that accounts for City of Fountain Inn's current and ongoing operations, as well as one-time costs that result from its day-to-day business. The operating budget includes both revenues and expenses for the fiscal year.

FORECAST

Based on budgetary and financial analysis on existing financial data, the forecast presents an assessment of future financial behavior or budgetary standing. The financial forecast is a fiscal management tool that presents estimated information based on past, current and projected financial conditions. A forecast can identify future revenue and expenditure trends that may have an immediate or long-term influence on priorities, policies, strategic goals, or services.

ACTUALS

The Actuals are comprised of General Ledger (GL) data representing all financial transactions in the GL system for a given fiscal period.

UTILITY FEES

Utilities (Natural Gas System)

Gas Customer Rates and/or Fees (the "Gas Rates and Fees") for the Natural Gas System management shall be segregated from the General Fund in the Natural Gas System Enterprise Fund and will be cost of service based (i.e., set to fully support the total direct, indirect and capital costs) and established so that the net operating revenues (including interest earnings) equal 1.30x annual debt service obligations. The Gas Rates and Fees shall include major capital costs provide for repairs, renovations, replacement, and expansion of its Natural Gas System Facilities.

The City shall, always, maintain a minimum Unassigned Natural Gas System Fund Balance (the "Natural Gas Fund Balance"), which is equivalent to 210 days operating expenditures. Should the Natural Gas Unassigned Fund Balance fall below the requisite levels, the City Administrator shall propose a rate and/or fee increase for the next year's budget that will restore the Natural Gas Unassigned Fund Balance to its required level.

Utilities (Sewer)

Sewer Customer Rates and/or Fees (the "Sewer Rates and Fees") for Sewer management shall be segregated from the General Fund in a Sewer Enterprise Fund and will be cost of service based (i.e., set to fully support the total direct, indirect and capital costs) and established so that the net operating revenues equal 1.30x total annual debt service obligations. The Sewer Rates and Fees shall provide for major capital costs including repairs, renovations, replacement, and expansion of its Sewer Facilities.

The City shall, always, maintain a minimum Unassigned Sewer Fund Balance (the "Sewer Fund Balance"), which is equivalent to 180 days operating expenditures. Should the Sewer Fund Balance fall below the requisite levels, the City Administrator shall propose a rate and/or fee increase for the next year's budget that will restore the Sewer Fund Balance to its required levels.

3 CITY OF FOUNTAIN INN BUDGET PROCESS

3.1.1 OVERVIEW

The annual budget process is the formal method through which the City Council determines its annual operating budget for the following fiscal year. During the budget development process, annual and multiyear priorities and objectives are reviewed and aligned with financial resources for the forthcoming fiscal year. The budget is developed for each department and reviewed for strategic alignment by each Director. Budgeting decisions are balanced by the goals and mission priorities of Mayor and Council and availability of resources.

The annual operating budget process and departmental requests are reviewed and recommended by the CFO for the City Administrator's review and approval. The final, approved operating budget is then adopted by City Council and monitored throughout the year.

Capital Improvement Plan is a five-year model and is updated annually. Expected sources of financing to include fund balance, reserves, grants, and financing are analyzed and adjusted.

3.1.2 Budget Kickoff

The annual budget process is launched with communication of the budget memo, which includes budget guidance, targets, timeline and supporting documentation needed to develop the annual budget. Kickoff meetings are held to socialize the guidance with all finance staff and leadership, and to allow departments time to determine their annual priorities and trade-offs based on the budget guidance, prior to budget development as well as ask any questions. These meetings are held with Department Head's and Finance Staff.

3.1.3 Budget Development

Once the second quarter forecast is complete with six months of actuals available and six months of projections, the forecast is copied to the initial annual budget for next fiscal year and updated with any centrally budgeted assumptions. Until this process is complete, and to initiate budget development, the Finance Director opens Budget Prep in Smart Fusion to users with an initial budget carried forward from the current adopted budget. Payroll related expenditure accounts are entered by for each department by the Human Resources Director and confirmed by the Accounting Management for accuracy. Detailed notes and line-item justification is required for each budget request.

3.1.4 Finance Analysis

During development of the budget, Finance works with Department Heads to ensure accuracy of budget entry. Preliminary targets may be revised and information from internal and external factors updated--such as negotiated contracts, improved understanding of unavoidable cost increases, evaluation of key priorities and trade-offs, and approved line item adjusted as a result of City Council's goal setting session. Department Heads, managers, and division leads are engaged in development and review of updated targets. Additional budget meetings in addition to the preset dates in the budget timeline may be scheduled to discuss revised targets, timelines and requested information to support development of the upcoming year's operating budget.

3.1.5 Budget Submission and Meetings

Finance Director or his or her designee reviews budgets in Smart Fusion with department and/or division leaders to finalize their budget submission. Department Heads submit a narrative to accompany their budget (template provided) and engage in a series of meetings to discuss priorities and trade-offs that are then incorporated into the Budget Prep module in Smart Fusion. Finance will work with division leaders, department managers, and Human Resources to accurately reflect targets, priorities and trade-offs in budgets, and complete entry in the system to meet communicated timelines. Budget Prep is the only tool for submitting budgets and requesting budget changes. **No offline requests or updates are accepted!**

3.1.6 Analysis and Administrator Review

Finance locks the budget in Budget Prep from additional edits and analyzes the data for accuracy and alignment with internal and external requirements. Finance partners closely with the City Administrator to ensure priorities and budget goals are captured by department, division and across the organization. Upon completion Administrator and Department Head meetings and budget finalization, a series of Council Workshops are held, and elected officials and the public are engaged in reviews of the budget and trade-off discussions. In some cases, additional guidance may be issued for implementation of improved budget targets. Updates are made, schedules are produced in Budget Prep for budget routing and approval. All changes will be communicated in a budget memo to Department Director's.

3.1.7 Council Adoption

The annual operating budget recommended by the City Administrator is submitted to City Council for their approval and adoption in a public meeting. This requires a public hearing and two readings of the ordinance.

3.1.8 Implement and Monitor Approved Budget

Planned expenditures are authorized and monitored throughout the year for control, accuracy, and risks. Monitoring the performance of the approved budget continues throughout the budget cycle and informs development of the future year budget. The approved budget is compared to actual activity from closed periods and reported to Council on a schedule approved by the City Administrator.

4 ROLES AND RESPONSIBILITIES

4.1.1 Finance Department and CFO Responsibility

The CFO reports to the City Administrator and is responsible for overseeing the development, monitoring, and managing the budget and associated processes. Primary responsibilities of the Accounting Manager and Finance Department:

- Oversee the annual budget process, including development and communication of guidelines and targets and budget calendars and timelines
- Develop the consolidated annual operating budget
- Consult with and provide strategic decision support for leadership
- Prepare the annual operating budget submission to the City Administrator and Chief Financial Officer
- Monitor performance of the approved budget by completing budget to actual variance analysis
- Provide decision support and guidance through the development of quarterly financial forecasts
- Manage budgeted headcount ensuring integrity of hiring and alignment with approved positions and salary ranges within the budget system
- Provide analytical support to department and division leaders and liaisons
- Manage the financial systems used to develop, monitor, track, and report budgets and actual expenditures
- Coordinate with other departments for alignment on policies and controls

4.1.2 Department Heads

Department Heads oversee the development and execution of their departmental budget and determine organizational priorities and trade-offs. Budgetary responsibilities of Department Heads are to:

- Manage the development and execution of the departmental annual budget
- Set priorities for the department in consultation with managers, administrators, and division leads

- Collaborate with team to discussion on priorities, resource alignment and trade-offs across the department and organization
- Review the department's financial status, including monitoring of actual activity and projection of an accurate forecast, to address issues and foster informed and effective decision-making
- Ensure the department's financial controls and procedures are within compliance
- Complete a budget narrative template to clearly articulate their priorities, trade-offs, and value propositions

4.1.3 Department Managers/Department Administrators

In large departments, budgets are created for each division and overseen by the department managers and/or an authorized department administrator. Budgetary responsibilities of department managers/administrators are to:

- Establish, review, and monitor an annual department budget that aligns with the priorities of the division
- Submit required budgetary documentation, including requests for budget adjustments to Finance
- Compare actual financial results to the budget to identify and/or correct transaction errors and measure financial performance
- Determine the cause, evaluate the activity, and take corrective action when actual financial results vary significantly from the budget
- Operate the department within the approved budget and provide justification to division leaders in cases where actuals exceed the approved budget
- Comply with financial controls and ensure the department's financial procedures are within compliance

4.1.4 City Administrator

The City Administrator is responsible for recommending the annual budget to Fountain Inn City Council. The City Administrator determines annual targets, reviews the annual budget, and ensures resources are aligned with the mission and goals of the city. The City Administrator upholds fiscal accountability and consistent application of financial controls and ensures transparency to the public.

4.1.5 City Council

City Council will annually approve the budget, budget ordinance, capital improvement plan, and sets the fee schedule recommended by the City Administrator. City Council provides strategic direction and oversight, sets goals and priorities for the City Administrator to execute, and takes actions pursuant to delegated authority, including review and approval of the city budget and planning.