

## 510 – Financial Management Policy

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## 510 Financial Management Policy

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### 1.0 Purpose

The William Shore Metropolitan Park District (District) is accountable to its citizens for its use of public money. The establishment and maintenance of wise financial and fiscal policies enables officials of the District to protect the public interest and ensure public trust. This Financial Management Policy gives direction on how the District meets its immediate and long-term service goals and operate in a financially prudent manner. Policies contained herein serve as general guidelines for both financial planning and internal financial management of the District.

This policy ensures that the District is positioned to respond to changes and the economy or new service requirements without an undue amount of financial stress. This policy also enables the District to maintain a good credit rating in the financial community and assure taxpayers that the District is well managed financially and maintained in sound fiscal condition. The District will adhere to the highest accounting and management policies as set by the Government Finance Officers' Association, the Governmental Accounting Standards Board, and other professional standards for financial reporting and budgeting.

Depending on the BOC choice for District Treasurer (*see policy 505 District Treasurer*), the District Accountant and the District Treasurer can be a dual role by one individual or firm, In the event the BOC has chosen the Clallam County Treasurer as the District Treasurer, the District Accountant will be responsible for the financial management of District funds as outlined in this policy and the District Treasurer policy (505) referenced above. For clarity, the terms District Accountant and District Treasurer can be interchanged if only one person is responsible for both roles.

### 2.0 Objectives

The objectives of the Financial Management Policy are:

- To guide the BOC, Executive Director and District Accountant for policy decisions having significant fiscal impact;
- To set forth operating principals to minimize the cost of government and limit financial risk;
- To employ balanced and fair revenue policies to provide sufficient funding for desired programs;
- To maintain appropriate financial capacity for bonded indebtedness for present and future needs;
- To promote sound financial management by providing accurate and timely information regarding the District's financial condition;
- To protect the District's credit rating and provide for adequate resources to meet the provisions of the District's debt obligations;
- To ensure the legal use of financial resources through an effective system of internal controls; and
- To promote cooperation and coordination with other governments, non-profits, and the private sector in the financing and delivery of services.

### 3.0 Financial Responsibilities

#### 3.1 Financial Responsibilities of the District Board of Commissioners

Sound business practice and good government dictates that the BOC establishes policies regarding the fiscal activities of the District in accordance with applicable local, state, and federal laws and regulations.

The District Board of Commissioners (BOC) is responsible for approving:

1. The Annual Operating Budget;
2. Any amended Annual Budgets
3. The Capital Improvement Plan
4. The Strategic Plan, and;
5. Approval of the Financial Management Policy.

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The BOC financial responsibilities are presented to the BOC and adopted annually during the budget process and semi-annually if any budget amendments are required.

### 3.2 Financial Responsibilities of the Executive Director

The Executive Director, in collaboration with the District Accountant, is responsible for:

1. Maintaining adherence to the approved Annual Budget
2. Proposing any changes to the Annual Budget
3. Developing programs within the constraints of the Annual Budget
4. Develop and propose the Capital Improvement Plan
5. Develop and propose the Strategic Plan

The Executive Director presents to the BOC the Annual Budget, Capital Improvement Plan and the Strategic Plan annually during the budget process. A Strategic Plan review is done annually during the beginning of the year.

### 3.3 Financial Responsibilities of the Treasurer and/or District Accountant

The Treasure and/or District Accountant, herein referred to as District Treasure, duties and responsibilities are outlines in District policy (*505-Treasurer Policy*). The Treasurer is responsible but not limited to the following:

- Monthly financial condition report to the BOC
- Maintaining adequate cash for approved expenditures
- Provide any information requested by the Executive Director, BOC or State Auditor
- Assist in the budget process as necessary

## 4.0 Financial Planning Process

The District engages in the financial planning process, which encompasses important policy considerations and provides guidelines for all aspects of the District's financial management strategy, is done during the annual budget process.

## 5.0 Fund Policies

In accordance with Washington State RCW's, the accounts of the District are organized on the basis of funds, each which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose

The Board is required to approve any newly established Funds. To be consistent with text contained in the annual budget, the following is a list of District Financial Funds that can be used by the District:

### 5.1 Fund Accounting

#### 5.1.1 General Fund

The General Fund is the general operating fund of the District. This fund is used to account for all financial resources and expenditures of the District, which are not accounted for in other funds. The General Fund provides general purpose governmental services to the citizens. This fund is used to account for all general financial resources except those that must be accounted for in a special revenue fund.

#### 5.1.2 Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or for major capital projects) that are

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legally restricted to expenditure for specific purposes.

### 5.2.2.1 Reserve Fund

Use of funds must be authorized by a Resolution of the District Commission.

### 5.2.2.2 Debt Service Fund

The Debt Service Fund is used only to account for the accumulation of resources for, and the payment of, long-term debt, principal and interest. This fund contains several types of debt including but not limited to:

- Long term loans greater than one year
- Any type of Bonds issued by the District

### 5.2.2.3 Permanent Funds

Permanent Funds are legally restricted so only earnings, not principal, may be used to support the specific government program. The Board will adopt separate policies governing the management of restricted funds such as endowments.

### 5.2.2.4 Capital Improvement Funds

Capital improvement funds account for the purchase, construction, replacement, addition, or major repair of public facilities and major equipment. These projects differ from routine maintenance in that their cost is generally greater than \$25,000 and they have a useful life of generally ten years or more. Examples may include, but are not limited to buildings, bridges, parks, major trails, and significant pieces of equipment.

## 5.2 District Funds

### 5.2.1 General Fund (001)

The General Fund is for the District's revenue and operating expenses including expenditures for salaries and wages, benefits, supplies, services, and charges which are necessary to support primary services. Capital Improvement Debt payments are paid through the Capital Improvement Fund (301)

#### 5.2.1.1 General Fund Restricted Balance (Reserve)

The General Fund's targeted restricted General Fund balance for reserves will be a minimum of three months of average operational expense that includes current debt payments to a maximum of six months of current operational expense that includes current debt payments, excluding capital expenditures or extraordinary expenses. An extraordinary expense is an accounting term used to describe expenses that are infrequent, unusual, and material in size.

#### 5.2.1.2 Use of General Fund Restricted Balance

The restricted General Fund balance is maintained to:

1. Offset unanticipated downturns and necessary revisions in any general municipal purpose fund; and
2. Provide a sufficient cash flow for daily financial needs at all times.

### 5.2.2 Capital Improvement Fund (301)

The Capital Improvement Fund is for the District's Capital Improvement expenses, funding the Capital Improvement Plan, Capital Improvement debt, and replacement of old equipment.

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### 5.2.2.1 Capital Improvement Fund Restricted Balance (Reserve)

The General Fund's targeted restricted General Fund balance for reserves will be sufficient for the replacement of all major mechanical equipment and building components at the end of the effective service life. This is done by an annual payment to the restricted fund balance.

### 5.2.2.2 Use of General Fund Restricted Balance

The restricted General Fund balance is maintained to fund the replacement of equipment that has an effective service life. It can also be used also for extraordinary expenses. An extraordinary expense is an accounting term used to describe expenses that are infrequent, unusual, and material in size.

## 6.0 Annual Budget Policies

The Annual Budget will define the District's annual financial management plan as developed by the District BOC and the Finance Committee. In conjunction with the Capital Plan and the Strategic Plan it establishes the goals and objectives for the ensuing year.

### 6.1 Budget Priorities

The budget will give first consideration to ongoing mission led programs before the addition of any new programs are added. Budgets associated with any proposed new program should be submitted and reviewed prior to adoption and incorporation into the budget. Additional personnel should be recommended only after the need has been fully substantiated. The District BOC must approve personnel not authorized in the budget.

### 6.2 Maintenance and Replacement Schedule

A multi-year maintenance and replacement schedule will be maintained by the Executive Director and based upon the District's projections of its future replacement and maintenance needs and funds and be reserved in the Capital Improvement Fund (301) Restricted Fund Balance. The projections will be updated and the schedule revised on an annual basis. The budget will provide sufficient levels of maintenance and replacement funding to ensure that all capital facilities and equipment are properly maintained and that such future costs will be minimized.

### 6.3 Year-end Surplus Funds

Year-end surpluses in the General Fund may be used for nonrecurring capital expenditures or dedicated to the Capital Improvement Plan funding. The following criteria must be met to qualify any portion of the General Fund surplus for these purposes:

- There are surplus balances remaining after all reserves and fund allocations are made;
- An analysis has occurred assuring that the District has an adequate level of short and long-term resources to support the proposed use of surplus balances; and
- The funds expenditure is approved by the District BOC.
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## 7.0 Budgetary Control Policies

### 7.1 Balanced Budget

The District will adopt a 12-month balanced calendar year budget. The balanced budget means budgeted expenditures will not exceed the available resources of the beginning fund balance plus new revenues. The adopted budget is for a 12-month fiscal period with annual financial reporting.

### 7.2 State of Washington Budgetary Statutes

The budget will be developed and administered in compliance with applicable State of Washington budgetary statutes.

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### 7.3 Budget Monitoring and Reporting

The District will maintain a system for monitoring the District's budget performance. Accounting and reporting practices will be maintained to provide accurate and timely monitoring of the District's budget performance. Monthly budget reports will be issued by the District Accountant or his or her designee to report on the actual performance compared to budget estimates to the District BOC. The system will include provisions for amending the budget during the year in order to address unanticipated needs or emergencies.

### 7.4 Amending the Budget

Appropriations requested after the original budget is adopted will be approved only after consideration of the current status of revenues. Such appropriations will be approved by the District BOC in accordance with public hearing statutes. The budget may be adjusted or amended during the year in order to address unanticipated needs, emergencies or changes in work plan. Formal amendment of the budget through a BOC approved resolution amending the expenditure appropriation and the related funding source is required when the balanced budget requirement is not possible (i.e., revenue is not sufficient to cover the budgeted expenses). Adjustments or amendments will occur through a process coordinated by the Executive Director or his or her designee.

### 7.5 Fund Allocation

The budget is adopted at the fund level with allocations made for administrative control. Reallocation is approved for administrative control of existing appropriation that not change the adopted budget balanced budget "bottom line". It may become necessary to shift allocations between line items, programs, to meet unanticipated needs, emergencies or changes in work plan. As long as the bottom line is not changed, the adjustment can be done administratively with the authorization of the District Accountant and approval of the Executive Director. The District Accountant and the Executive Director has the authorization for the transfer of funds between funds as part of the adopted budget.

## 8.0 Revenue Policies

The budget will reflect the projection of all anticipated revenue from all sources including tax revenue. One time or unanticipated revenue will not be included in the Annual Budget but can be accounted for in amended budgets once the revenue has been received. The annual budget revenue will establish the level of programs and services the District will provide to the community.

### 8.1 Revenue Sources

The District will try to maintain a stable revenue system to protect against short-term fluctuations in any one revenue source. The District depends on the property tax levy passed by the voters in May 2009. Although the District seeks to increase programming and admission revenue to supplement the tax levy revenue, the revenue generated by programming and admissions is not sufficient to maintain the facility or it's programs.

### 8.2 Revenue Estimates

Because revenues, especially those of the General Fund, are sensitive to local and regional economic conditions, revenue estimates will be conservative and will be made by an objective, analytical process.

### 8.3 Cost Recovery from Programs and Users

As much as reasonably possible, District programs should be supported by fees and charges in order to provide maximum flexibility in the use of general revenues to meet the cost of services of broader public benefit. Rate adjustments for services utilizing user fees and charges should be recalculated annually to consider inflation and other costs. The District should be sensitive to the balance between the need for programs and services and the District's ability to raise fees,

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charges, and taxes to support those services.

### 8.4 Acceptance of Donations

The District will occasionally receive requests from individuals or organizations to accept cash donations. The Executive Director will have the authority to accept restricted and unrestricted cash donations and place them into restricted use funds in coordination with the District Accountant and Treasurer.

## 9.0 Expense Policies

The budget will reflect the projection of all anticipated expenditures and reserve requirements necessary. The District will avoid budgetary and accounting practices that balance the current budget at the expense of future budgets. The District will maintain a level of expenditures, which will provide for the Mission, Vision and Values established by the District BOC.

## 10.0. Accounting and Reporting Policies

The District's accounting and financial reporting will follow the Washington State Auditor's Office prescription for the accounting reporting of local governments in the State of Washington under RCW 43.09.200.

### 10.1 State Auditor's Reporting System

The State Auditor's Office provides a standard account classification system through its Budgeting Accounting and Reporting System (BARS). The District is classified as a Special Purpose Governmental District and will maintain its records on a basis consistent with the Category 2 BARS manual.

### 10.2 District Accountant

The District Accountant will maintain financial systems to monitor expenditures, revenue, and performance of all District programs on an on-going basis. The Board will receive regular monthly reports that will present a summary of financial activity for the period and the cumulative data for the budget year.

### 10.3 Cash and Accrual Basis Accounting

For State Auditor Reporting revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law. Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased. For monthly reporting purposes the District Accountant can use cash basis or accrual basis for reporting to the BOC.

### 10.4 Fixed Asset Management

The Executive Director or his or her designee shall maintain fixed asset records for all capital assets owned by the District. The threshold for capitalization of non-infrastructure assets is \$5,000.

### 10.5 State Audits and Reviews

The State Auditors' Office will perform a financial and compliance audit on a scheduled basis and issue an audit report. Results of the audit will be provided to the BOC and the public. The District will conduct an internal financial review on an annual basis as part of the budgeting process.

## 11.0 Debt Management Policies

The District will maintain reserve funds sufficient to meet requirements for the guarantee of debt service in compliance with debt agreements

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The basic objectives of the District's debt management policy are:

- To achieve the lowest possible cost for borrowing;
- If needed, to ensure access to the bond market to adequately provide the capital needed to finance public improvement and other long-term development objectives. Debt can be used as a mechanism to equalize costs of needed improvements to both present and future citizens and as a way to reduce the costs of substantial public improvements;
- To maintain strong and sound credit demonstrated by its commitment to meet all obligations in a timely fashion;
- To maintain a level and structure of outstanding indebtedness that does not lead to excessive debt service requirements, thereby avoiding unnecessary strains on the operating budget; and
- To maintain the confidence of lending markets and the taxpayers.

The District Commissioners approval is required prior to the issuance of debt. The District Accountant or his or her designee has the authority to act as debt manager in the duties of debt issuance and related repayment activities.

### 11.1 Bond Procedures

The District will use the services of legally certified and credible bond counsel in the preparation of all presentations. An independent outside financial advisor may be used to provide the District with objective advice and analysis on debt issuance. The District will generally issue its debt through a competitive process but may use a negotiated process. A fiscal agent will be used to provide accurate and timely securities processing and timely payment to bondholders. As provided by RCW chapter 43.80 the District will use the fiscal agent appointed by the state. An underwriter will be used for all debt issued in a negotiated or private placement sale method. The underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to the investors. The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life, or a maximum of 20 years. (*see Policy 518-Post Issuance Bond Compliance Procedures*)

### 11.2 Short Term Debt

It is the District's policy to avoid the use of short-term indebtedness to the extent possible. Short-term borrowing (one year or less) will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received or to cover temporary cash flow shortages resulting from delay in receipting tax revenues or to finance capital construction.

Interfund loans may be used to meet short-term cash flow needs as an alternative to outside debt instruments. Interfund loans will be permitted only if an analysis of the lending fund indicates excess funds are available and that the use of these funds will not adversely affect current operations.

### 11.3 Long Term Debt

The District will not use long-term debt to support current operations. Prior to the issuance of debt, the District will prepare revenue projections to ensure there is adequate revenue to make principal and interest payments. The District will confine long-term borrowing to capital improvements that cannot be financed from current revenues.

Refunding bond issues designed to restructure current outstanding debt is an acceptable use of bond proceeds. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant or restructure debt repayment due to cash flow needs, a debt refunding will attempt to achieve a present value savings of five percent of the principal amount of the refunding debt being issued.

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The District will maintain communications with bond rating agencies regarding its financial condition. The District will follow a policy of full disclosure on financial reports and bond prospectuses. The District will use bond proceeds pursuant to the bond resolutions, contracts, and Internal Revenue Codes applicable to government bonds. The District will maintain a system of recordkeeping and reporting to meet and satisfy calculations necessary for yield restriction requirements and arbitrage rebate requirements on the District's Tax-exempt bonds.

### **11.4 General Obligation Bonds, Limited General Obligation Bonds and Lease Purchase Policies**

Projects proposed for financing through general obligation debt will be accompanied by an analysis of the future operating and maintenance costs associated with the project. The District shall pay all interest and repay all debt in accordance with the terms of the bond resolutions. Bonds will not be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The financing of lease purchases should be done in accordance with (RCW 39.36.020 (2) and RCW 35.42.200).

### **12.0. Capital Improvement and Capital Budget Policies**

It is the District's policy to ensure that adequate resources are allocated to preserve existing infrastructure and other capital assets before targeting resources toward construction or acquisition of public facilities or major equipment. The District will maintain its physical assets at a level adequate to protect its capital investment and minimize future maintenance and replacement costs. The budget will provide for the orderly replacement of the capital assets from current resources where possible. Long term borrowing for capital facilities is considered an appropriate method of financing large facilities that benefit more than one generation of users (*see Policy 512-Capital Improvement Plan Policy*)

### **13.0. Cash and Purchasing Policies**

The Executive Director and the District Accountant will develop, maintain, and constantly seek to improve cash management systems, which ensure the accurate and timely accounting, investment and security of all cash assets. Written cash handling procedures are updated periodically and made available to all staff. Purchase of goods and services will be accomplished by a separate purchasing policy (see policy 520-Purchasing) adopted by the District Board. Payroll costs are authorized by budget adoption. Expenditures will be within current resource projections at the fund level.

### **14.0 Grant Management**

#### **14.1 Funding**

The District recognizes that grant funding provides significant resources to enhance the District's ability to provide programs and do Capital Improvements. The District will seek grant funding for activities that are determined to further the Strategic Objectives of the District or that provide for programs, which are in the best interests of our citizens. The District will examine the benefits of grant funding prior to application and decline funding determined not to meet the above criteria.

#### **14.2 Grant Process for New Programs or Capital Improvements**

Grant applications to fund new programs or capital improvements with state or federal funds will be reviewed by the Executive Director and the Finance Committee prior to application. Among other issues, consideration will be given to whether grant activities further the District's mission and strategic objectives and whether locally generated revenues will be required to support grant activities when grant funding is no longer available.

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### **15.0 Investment Policy**

Funds are managed by the Clallam County Treasurer (see Clallam County Investment Policies).