

Background and Purpose

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Bothell.

Establishment and maintenance of prudent fiscal policies enables City officials to protect public interests and ensure public trust.

This document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially sound manner. These policies have been established to provide general fiscal guidelines, and are intended to provide sound direction in the management of the City's financial affairs.

General Financial Philosophy

The general financial philosophy of the City is to provide a sufficient financial reserve, along with the resources necessary to sustain a high level of municipal services while ensuring public safety, maintaining the infrastructure and surroundings of the City, and promoting the social well-being of all its citizens.

The City strives to achieve a strong financial condition with the ability to:

- withstand local and regional economic impacts;
- Adjust efficiently to the community's changing service requirements;
- effectively maintain and improve the City's infrastructure;
- prudently plan, coordinate, review, and implement responsible development and growth; and
- provide a high level of police, fire, and other protective services to assure public health and safety.

Accounting, Auditing, and Financial Reporting Policies

An independent audit is performed annually. The City produces a [Comprehensive Annual Financial Report](#) (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP), as outlined by the Governmental Accounting Standards Board (GASB). The City consistently meets the guidelines and criteria necessary to receive the Government Finance Officers Association (GFOA) Certificate of Excellence in Achievement in Financial Reporting.

The City of Bothell has established and continues to maintain a high standard of accounting practices. The City's accounting and budgetary systems conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS), and local regulations.

A comprehensive accounting system shall be maintained to track all financial transactions necessary to effectively operate the City.

The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.

Full disclosure will be provided in all City financial reports and bond representations.

An annual audit will be performed by the State Auditor's Office, including the issuance of a financial opinion.

Importance shall be placed on protection and enhancement of the City's credit rating.

Revenue Policies

- Revenue estimates are to be conservatively forecasted.
- The budget amendment process should be used to appropriate questionable revenues when they become certain and measurable.
- Employ revenue policies which prevent undue or unbalanced reliance on any one revenue source.
- Distribute the cost of municipal services accurately and fairly.
- Provide reliable and adequate funding sources to operate approved programs.
- Utilize annual cost allocation methods to monitor current fees for City services and ensure best business practices for cost recovery.
- Maintain an updated six-year financial forecast that estimates future revenues, and utilize this data to analyze and evaluate the long-term fiscal impacts of current budget choices, decisions, and policy options.

Expenditures, Cost Containment, and Budgetary Control Policies

Although the Budget includes sufficient resources to finance City services for the ensuing biennium, it is imperative that an adequate and effective cost analysis and containment program be maintained.

- Regularly examine programs and services (including expenditure outflows) for more efficient and/or less costly ways to deliver services to citizens.
- Perform frequent and routine fiscal and operational reviews to assess changing economic conditions and identify possible programmatic modification needs. On-going efficiency savings are a result of these type of routine fiscal and operational reviews. Routine process reviews are essential for our City's long-term fiscal sustainability.

- Provide, maintain, and track capital assets (including essential public facilities) at a level adequate to protect the investment, and minimize future maintenance, replacement and liability costs.
- Update a rolling six-year financial forecast that estimates future expenditures, and utilize this data to analyze and evaluate the long-term fiscal impacts of current budget choices, decisions, and policy options.

Cost Recovery

The City Council considered and adopted a comprehensive fee schedule for the upcoming biennium. The City's fee schedule increases annually to reflect actual increases in the cost of providing a service, or minimally by the rate of inflation. The City bases its inflation figures on the June Consumer Price Index – Urban Wage and Clerical Workers (CPI-W) for Seattle/Tacoma-Bremerton.

Cost analyses are prepared to capture all direct and indirect costs associated with providing a City program or service. In nearly all cases, fee rates are set to recoup 100% cost recovery.

The City's fee schedule sets fees and charges collected by the City that are not dictated by the Bothell Municipal Code, State statute, or by contract.

Internal Services

Internal Service funds account for the goods and services provided by one fund for the benefit of another. This is done on a cost/benefit reimbursement basis.

The City has three internal service funds: Risk Management/Self Insurance, Fleet Management, and Asset Replacement.

FINANCIAL POLICIES

The City utilizes Internal Service funds to: Account for the total cost of providing services between funds and accumulating resources for replacing fixed assets.

Isolate interfund transactions so they can be accounted for like those of a private sector business, and thus provide accurate fund expenditure reporting by including all costs resulting from the Fund's operation.

Cash Management Policies

The City deposits funds within 24 hours of receipt. Investment of City funds emphasizes the preservation of principal, with liquidity and yield being secondary factors.

Cash Handling

State law requires deposit of all cash and cash-like items to be deposited within 24 hours. City policy allows for weekly deposit of receipts totaling less than \$100.

Each person receipting funds must have their own locking cash drawer.

Cash handling training is required for all staff that work with or supervise functions which require the handling of City cash or cash-like items.

Cash handling refresher training should be repeated every three years.

Cash drawers are balanced daily.

Checks are endorsed immediately with the City's restrictive endorsement stamp.

Financial transactions are entered into the City's accounting system immediately.

Mailed payments are opened with more than one person in the room. Sequentially numbered receipts are to be used and accounted for.

Cash handling duties are segregated so the same people do not have responsibility for collection of money, authorization to approve account adjustments, preparation of the deposit, and reconciliation of the bank statement.

Those who prepare or sign checks do not have responsibility for reconciling the accounting system or checkbook to the bank statement.

Petty Cash funds are reconciled once per month by a person who is not responsible for the day-to-day management of the fund.

Customer account adjustments and refunds are preauthorized by a manager.

Cashier overages or shortages which exceed \$50 must be reported to the City's Finance Department immediately.

Investment Policies

Watchful control of the City's daily operations is an important part of Bothell's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient funds are available to meet current operating needs. Idle funds are invested until such time as they are required to cover City operating expenditures.

The City's investment policy has been certified by the Municipal Treasurer's Association.

The City's idle cash is invested on a continuous basis, in accordance with the City's adopted investment policies.

The City should maintain a formal investment policy, which is reviewed and endorsed by state and national professional organizations.

The City should invest all funds (in excess of current requirements) based upon the following order of priority: 1) legality; 2) safety; 3) liquidity; and 4) yield.

Investments with City funds should not be made for purposes of speculation.

The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.

Proper security measures should be taken to safeguard investments. The City's designated banking institution should provide adequate collateral to insure City funds.

The City's investment portfolio should be reviewed regularly to assess the portfolio's degree of risk and compliance with the adopted investment policies.

An analysis of the City's cash position should be prepared at regular intervals throughout the fiscal year.

The City Council should be provided timely updates related to changes in the City's investment policy and performance strategy.

Sufficient cash should be maintained to provide adequate funds for current operating needs.

Where permitted, the City should pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.

Net investment income from Treasurer's Cash should be allocated in accordance with RCW 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Treasurer. Net investment income is the amount of annual investment proceeds after an allocation is made to enterprise funds and Council-directed obligations are met for Current Expense Fund purposes.

The City of Bothell should select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

The City should diversify its deposit and investment assets by investment instrument and maturity scheduling.

All available City funds should be invested, recognizing that daily market activity or other constraints may affect investment goals. In most cases interest should be allocated back to the fund that earned it.

Debt Policies

The City issues bonds for capital improvements. The City will not issue notes to finance operating deficits. The City publishes and distributes an official statement for each bond issue.

The City provides continuing note disclosure, in compliance with the Securities and Exchange Commission (SEC) requirements to ensure the continued marketability of City issued debt. The City annually reviews the status of outstanding and future potential debt to facilitate financial planning. City Council approval is required prior to issuance of debt.

The City's Schedule of Long-Term Debt to Maturity is Located in the Expenditure Section of the budget document.

Capital Facilities Plan Policies

In the fourth quarter of even numbered years, the City Council adopts the [Capital Facilities Plan](#) (CFP). This plan includes a seven-year minimum financing plan and identifies funding sources and capital projects, including their anticipated costs.

The objective of the CFP process is to establish a spending plan that identifies and prioritizes capital needs (and future maintenance and operating costs) with available funding sources. Appropriations for the first two years of the CFP are included in the biennial budget.

The following fiscal strategies are incorporated in the CFP:

- A minimum of 10% of projected revenues from Real Estate Excise Tax (REET) should be designated as Opportunity Funds. Only at Council discretion can these funds be appropriated towards currently unidentified projects. Per this policy, the Opportunity Fund equates to 10% of projected REET receipts.
- Annual REET receipts amounting to \$1 million should be held in reserves. These funds are reserved to address any cash flow issues that should arise for REET eligible projects.
- Councilmanic General Obligation debt service should not exceed REET revenue estimates unless other secured funding is identified.
- A 50% minimum of one-time revenue transfers should be allocated as follows: 25% Park Improvements and 25% Pavement Improvements.
- One-time revenues include construction sales tax and permit fees in excess of base figures. The City's adopted financial policy utilizes one-time revenues for one-time expenditures such as capital. The City's long-term financial

plan therefore includes the transfer of one-time General Fund revenues to the Capital Improvement Fund contingent on a minimum 15% committed General Fund operating reserve, as well as a 10-year fully committed Asset Replacement reserve.

- Forty-five to sixty day operating reserves should be maintained in the Water Utility Fund.
- Thirty to sixty day operating reserves should be maintained in the Sewer Utility Fund.
- One hundred twenty to one hundred fifty day operating reserves should be maintained in the Storm & Surface Water Utility Fund.
- Capital reserves amounting to 2% of the asset replacement (value of the utility's infrastructure) should be maintained in each utility fund to provide for unexpected major repairs.
- Capital reserves amounting to 10% of average annual capital improvements projects should be maintained in each utility fund to protect against unanticipated increases in project costs.
- Asset replacement funding should be collected as an element of the utility user fees on the utility bills.

Should the City's budget process result in the budget being inconsistent with the adopted CFP, the CFP will be amended as part of the budget adoption process.

Reserve Fund Balance Policies

Adequate fund balance and reserve levels are a necessary component of the City's financial strategy, and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for accounting funds assures adequate resources for cash flow, and mitigates short term effects of unexpected revenue shortfalls.

City and State regulations have been established to allow the City of Bothell to create and maintain specific reserve funds.

Prudent use of reserve funds enables the City to defray future costs and take advantage of matching funds and beneficial opportunities. Reserve funds provide the City with the ability to exercise flexible financial planning in developing future capital projects.

Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in economic conditions.

The City should establish minimum fund balance targets based on cash flow requirements.

The City should include all fund balances in its biennial budget document.

Minimum fund balances should be attained and maintained through expenditure management, revenue management, and/or contributions from the General Fund.

All expenditures drawn from reserve accounts require Council approval, unless previously appropriated by the City Council in the City's biennial budget.

The City should maintain reserves for the replacement of vehicles and fixed assets.

Additional reserve designations may be created by Council to account for monies for future known expenditures, special projects, or other specific purposes.

All reserves should be presented in the annual budget document.

Unrestricted reserves, along with one-time and unpredictable revenues, should be utilized for one-time expenditures - therefore avoiding using them to fund routine ongoing operating expenditures.

Basis of Budgeting and Accounting

"Basis of accounting" refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made, regardless of the measurement focus applied:

1) Accrual

Both governmental and business-type activities in the government-wide financial statements, and the proprietary and fiduciary fund financial statements, are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

2) Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual: i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City considers all revenue reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

The City of Bothell's budget is prepared on a modified accrual basis.

The Comprehensive Annual Financial Report presents the City's financial position on the basis of generally accepted accounting principles.