

FUND DESCRIPTIONS

The financial operations of the City are organized into funds and account groups. Each fund is a separate fiscal and accounting entity. All revenues received or expenditures made by the City are accounted for through one of the funds or account groups listed below.

Governmental Funds

Most City functions are financed through what are referred to as governmental funds. There are five types of governmental funds:

- 1) General Fund
- 2) Special Revenue Fund
- 3) Debt Service Fund
- 4) Capital Projects Fund
- 5) Permanent Fund

Governmental Accounting Standards Board (GASB) No. 54 requires each governmental fund balance to be classified into five classifications:

- 1) Nonspendable Fund Balance
- 2) Restricted Fund Balance
- 3) Committed Fund Balance
- 4) Assigned Fund Balance
- 5) Unassigned Fund Balance

General Fund

The General Fund is the major operating fund of the City. It accounts for the vast majority of City operations, such as City administration, police and fire services, community planning and development services, and parks and recreation.

Major General Fund revenues are property tax, sales tax, utility tax, State shared revenue, fines and forfeitures, license and permit fees, charges for services, and investment interest.

Special Revenue Funds

Special Revenue Funds are used to account for and report the revenues of specific revenue sources that are legally restricted or committed to a specific purpose other than debt service or capital projects.

Debt Service Funds

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned for principal and interest. The following are the types of debt generally issued and debt limit for general government purposes:

- **Unlimited “Voted” Tax General Obligation Bonds** represent debt that was approved by voters for a specific purpose. Citizens repay the debt over a stated period of time through an excess property tax levy.
- **Limited “Non-Voted” Tax General Obligation Bonds** (also called Councilmanic Bonds) can be issued by the City Council without a vote of the people. The debt is repaid from current unrestricted revenue sources.
- **Legal Debt Limits** State law dictates that voters may approve general obligation debt issues up to 7.5% of assessed valuation. This 7.5% debt capacity is allocated evenly among general government, parks/open space, and utilities in a 2.5% limit for each. Within the 2.5% limit for general government, the City Council has authority to issue debt up to 1.5% assessed valuation without voter approval.
- **General Obligation (GO) Bond Funds** are created to account for the retirement of general purpose bonds to finance various public projects such as construction or improvement of facilities, parks, and streets.

- **2013 GO Bond Fund** created in 2013. The City issued 20 years of \$9,665,000 Limited Tax GO Bond without a vote to retire 2012 Bond Anticipation Note (BAN) used for property purchase and public improvements related to the downtown revitalization. The debt service payments are from traffic impact fees and real estate excise taxes.
- **Local Infrastructure Financing Tool (LIFT) GO Bond Fund** is intended to account for the retirement of 25 year general purpose bonds of LIFT. In 2014, a \$30,000,000 councilmatic LIFT Bond was issued to support downtown revitalization projects. The debt payments are secured from future rebates of state property and sales taxes up to \$1,000,000 per year for a maximum of 25 years. These taxes are collected from within the City's designated Revenue Development Area (RDA) and rebates are restricted for debt service associated with the LIFT Bond.

Capital Improvements Fund

(See Capital Projects List in the Expenditures section of the budget document)

This Fund is used to account for monies used to acquire land and/or construct major capital facilities (such as buildings or roads).

The City's Capital Improvements Fund is funded by real estate excise tax, grants, private sources, and transfers from other City funds.

Permanent Funds

These funds are used to report resources received that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Governmental Funds and the City's Financial Structure

The City's financial structure is consistent with the Washington State Auditor's prescribed Budget, Accounting, and Reporting System (BARS), as required by law for all Washington local governments. The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Expenditure budgets are prepared at the "line item" or "object-of-expense" level. Examples are: wages, uniforms/clothing, office supplies, and professional services. Summary totals are provided for object groups such as: wages, benefits, supplies, and capital outlay. Further subtotals are provided for organizational units within departments/divisions, which are an approximation of costs by function. Finally, department and fund totals provide a broader viewpoint of the budget. The financial overview page contained within each operating department section provides summary level financial data over comparative years.

Governmental funds are budgeted using the modified accrual basis of accounting. Under this basis, revenues are recognized when received and earned. Expenditures are accounted for on the accrual basis with the exception of employee leave benefits and long-term debt, which are recognized when due.

Proprietary Funds

Proprietary operations of the City (enterprise and internal service functions) are accounted for using the accrual basis of accounting, in a manner comparable to private industry. Proprietary funds are used to account for the City's activities that are similar to those found in the private sector. These activities are not financed by taxes, but rather by fees charged to the users of the service. The accounting principles used for proprietary funds are the same as those applicable to similar businesses in the private sector.

Utility Enterprise Funds

Utility Enterprise Funds account for the activities connected with providing utility services to citizens within the City's service area. Enterprise activities are fully supported by user charges. Customers connected to the system are billed for the full cost of the City providing the service to that customer.

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one government fund, or department to another on a cost-reimbursement basis. By reporting inter-governmental transactions in this manner, the City is able to:

- Account for and fund the total cost of the activity,
- Accumulate resources for replacing fixed assets, and
- Isolate inter-fund services so governmental fund types do not report related revenues and expenditures twice within the same fund type - once by the department furnishing the goods or services, and again by the department receiving the goods or services.

The City currently has three internal service funds:

- Equipment Rental
- Self Insurance
- Asset Replacement

Though not required by law, budgets for Internal Service Funds are prepared for internal management purposes. Revenues for these funds are derived from the charges assessed to each fund/department that utilizes their services.

Equipment Rental Fund

The Fund accounts for the activities of the Fleet Division of the Public Works Department.

Self Insurance Fund

The Self Insurance Fund was established to pay liability, property, and Law Enforcement Officers & Fire Fighters (LEOFF) I health insurance premium costs.

In addition, an amount is set aside each year to pay claims within the self-insured retention of our 1997 liability insurance policy (there is a three year "tail" on liability claims due to the statute of limitations to file a claim), and to pay defense costs for claims that fall outside of coverage.

This fund also pays the premiums for our retired LEOFF employees' health care insurance, and active and retired LEOFF I employees' uninsured medical benefits.

Asset Replacement Fund

The Asset Replacement Fund was established in 2000 to set aside funds for known future asset replacement needs. Funds are set aside based on projected future costs of assets and their life expectancies.

Blended Component Unit

The City has one blended component unit. City of Bothell (COB) Properties accounts for the activities of the City Hall lease revenue bond issuance, debt service and maintenance. It is a blended component unit of the City.