



Peninsula Metropolitan Park District

Comprehensive Financial Management Policy

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Policy: **Comprehensive Financial Management**
 (Approved by the PenMet Parks Board of Commissioners)

Purpose: The Peninsula Metropolitan Park District (PenMet Parks) is accountable to its citizens for its use of public money. The establishment and maintenance of wise financial and fiscal policies enables officials of PenMet Parks to protect the public interest and ensure public trust.

This Financial Management Policy defines the current policies to be used by PenMet Parks to meet its immediate and long term service goals and operate in a financially prudent manner. The individual policies contained herein serve as general guidelines for both financial planning and internal financial management of PenMet Parks.

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 is also established 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.

Table of Contents

Section 1.	General Responsibilities	4
Section 2.	Objectives.....	4
Section 3.	Financial Planning and Stability Policies	4
Section 4.	Operating Budget Policies	6
Section 5.	Budgetary Control Policies.....	7
Section 6.	Revenue Policies	9
Section 7.	Investment Policy	10
Section 8.	Accounting and Reporting Policies	10
Section 9.	Fund Policies	10
Section 10.	Debt Management Policies	13
Section 11.	Capital Improvement and Capital Budget Policies	14
Section 12.	Cash and Purchasing Policies.....	15

Policy Requirements:

Section 1. General Responsibilities

The PenMet Parks Board of Commissioners is responsible for approving the annual Operating Budget and the Capital Facilities Plan as well as establishing the policy direction for PenMet Parks under Washington State Law. Sound business practice and good government dictates that the Commission establishes policies regarding the fiscal activities of PenMet Parks in accordance with applicable local, state, and federal laws and regulations.

District staff, under the direction of the Executive Director, is responsible for proposing programs, recommending funding levels, and formulating budget proposals for implementing service programs in accordance with established goals and directives.

Section 2. Objectives

The objectives of the Comprehensive Financial Management Policy are:

- To guide the Commissioners and management 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 PenMet Parks financial condition;
- To protect PenMet Parks credit rating and provide for adequate resources to meet the provisions of PenMet Parks 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.

Section 3. Financial Planning and Stability Policies

- A. The District engages in a financial planning process which encompasses important policy considerations and provides

guidelines for all aspects of the District's financial management strategy.

- B. The General Fund's targeted unreserved fund balance will be a minimum of three years 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.

Operating expenses are those costs including expenditures for salaries and wages, benefits, supplies, services, and charges which are necessary to support primary services. Current debt includes debt payments that are due in less than one year after the date of issuance. An extraordinary expense is an accounting term used to describe expenses that are infrequent, unusual, and material in size.

- C. This reserve will be established and 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.

- D. The District will maintain Reserve Funds to meet requirements for the guarantee of debt service in compliance with bond indenture agreements.

- E. Fees and charges collected for services.

1. Recreation (Program) Fees collected will be utilized to off-set the cost of direct expenses related to the delivery of District sponsored recreation programs.
2. Facility Use and Rentals Fees and Charges are typically used to off-set the cost of direct maintenance expenses related to facilities maintained and operated by the District. The Board will direct 100% of these fees to a Permanent Fund such as a restricted maintenance endowment fund(s) to support park maintenance in general or for a specific park or facility.

Financial Forecasting

- A. PenMet Parks shall develop and maintain annually a financial forecast for the General Fund that estimates fund resources and uses for the five years beyond the current year. This forecast will provide PenMet Parks decision makers with an indication of the long term fiscal impact of current policies and budget decisions. This planning tool must recognize the effects of economic cycles and the demand for services and PenMet Parks resources. It is the goal of PenMet Parks to achieve strong financial condition with the ability to:
 - Withstand local and regional economic conditions;
 - Adjust efficiently to the Peninsula's changing service requirements; and
 - Effectively maintain and improve PenMet Parks infrastructure.
- B. The forecast should differentiate between revenue associated with one-time economic activities and revenues derived as a result of economic growth. PenMet Parks financial planning should ensure the delivery of needed services by assuring adequate reliance on ongoing resources in order to support continued services during economic downturns.

Section 4. Operating Budget Policies

- A. The operating budget will define the District's annual financial plan as developed by the District Commission and the Administration in establishing goals and objectives for the ensuing year. The intent of the budget is that one-time and routine expenditures will be financed with current resources.
- B. The budget will give first consideration to ongoing mission led programs before the addition of any new program. Budgets associated with any proposed new program should be submitted and reviewed at least four months prior to adoption and incorporation into the budget. Additional personnel should be recommended only after the need has been fully substantiated. Personnel not authorized in the budget must be approved by the District Commission.
- C. The budget will reflect the projection of all revenues from all sources and all expenditures and present the level of governmental

services and method of allocating costs in the provision of these services to the community.

- D. Current operating expenditures will be paid from current revenues and cash carried over from the prior year after reserve requirements are met. The District will avoid budgetary and accounting practices which balance the current budget at the expense of future budgets.
- E. The District will maintain a level of expenditures which will provide for the public well being and quality of life for the residents of the community.
- F. A multi-year maintenance and replacement schedule will be developed based on the District's projections of its future replacement and maintenance needs. The projections will be updated and the schedule revised on an annual basis.
- G. 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.
- H. Year-end surpluses in the General Fund may be used for nonrecurring emergency capital expenditures or dedicated to the Capital Program. 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 are specifically appropriated by the District Commission.

Section 5. Budgetary Control Policies

- A. 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.

- B. The budget will be developed and administered in compliance with applicable State of Washington budgetary statutes.
- C. The Administration will maintain a system for monitoring the District's budget performance. The system will include provisions for amending the budget during the year in order to address unanticipated needs or emergencies.
- D. Appropriations requested after the original budget is adopted will be approved only after consideration of the elasticity of revenues. Such appropriations will be approved by the District Commission.
- E. Accounting and reporting practices will be maintained to provide accurate and timely monitoring of the District's budget performance.
- F. Monthly budget reports will be issued by the Executive Director or his or her designee to report on the actual performance compared to budget estimates to the District Commission.
- G. The budget may be adjusted during the year in order to address unanticipated needs, emergencies or changes in work plan. Adjustments or amendments will occur through a process coordinated by the Executive Director or his or her designee.
 - 1. The budget is adopted at the fund level with allocations made for administrative control. Reallocation of existing appropriation does not change the adopted budget "bottom-line." It may become necessary to shift allocations between line items, programs, or even departments to meet unanticipated needs, emergencies or changes in work plan. As long as the total fund budget is not changed, the adjustment can be done administratively with the authorization of the Department Manager and approval of the Executive Director with the exception of any shift of allocation from the Maintenance Department which requires approval of the Board of Park Commissioners.
- H. The Executive Director has the authorization for the transfer of funds between funds only if approved by the Board and as part of the adopted budget.
 - 1. Transfer of funds between projects within the CIP shall be approved in advance by the Board of Park Commissioners.
- I. The budget may also be amended during the year in order to address unanticipated needs, emergencies or changes in work

plan. Formal amendment of the budget through Commission approved resolution amending the expenditure appropriation and the related funding source is required when a fund's total budget changes. The change can either be when existing budget authority is moved between funds or when a new budget authority is needed such as in the case of receiving additional grant funding.

Section 6. Revenue Policies

- A. The District will try to maintain a diversified and stable revenue system to protect against short-term fluctuations in any one revenue source. The District will seek to avoid dependence on temporary or unstable revenues to support on-going services. The District will also seek to avoid dependence on federal or state revenues. The revenue mix should combine revenue source types that minimize the effect of an economic downturn.
- B. 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.
- C. As much as reasonably possible, District services that provide private benefit 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. Accordingly cost recovery of General Fund services should be maximized to the extent possible. 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 services and the District's ability to raise fees, charges, and taxes to support those services.
- D. Acceptance of Cash Donations
The District may occasionally receive requests from individuals or organizations to accept cash donations.

The Executive Director will have the authority to accept unrestricted cash donations and place them into a General Maintenance Endowment.

Cash donation requests that are restricted for a specific use or uses are required to receive approval by the Board of Park Commissioners.

Section 7. Investment Policy

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

Section 8. Accounting and Reporting Policies

- A. The District's accounting and financial reporting will follow the Washington State Auditor's Office prescription for the accounting and reporting of local governments in the State of Washington under RCW 43.09.200.
- B. 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.
- C. The Executive Director or his or her designee will maintain financial systems to monitor expenditures, revenue, and performance of all District programs on an on-going basis. The Board of Park Commissioners will receive regular monthly reports that will present a summary of financial activity for the period and the cumulative data for the budget year.
- D. The accounts of the Peninsula Metropolitan Park 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 Peninsula Metropolitan Park District's resources are allocated to and accounted for in individual funds depending on their intended purpose.
- E. 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.

- F. 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 \$7,500.
- G. 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 District Commission.
- H. The District will conduct an internal financial review on an annual basis.

Section 9. Fund Policies

To be consistent with text contained in the annual budget, the following is a list of District Financial Funds:

- A. 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 PenMet Parks 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.
- B. 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 legally restricted to expenditure for specific purposes.
 - 1. Reserve Fund
Use of funds must be authorized by a Resolution of the District Commission.
 - 2. Recreational Activities Fund
The Recreational Activities Fund is user fee based. Revenues are collected and used to operate a particular recreational activity with excess funds used for improvements to support programs, facilities and events.
 - 3. Equipment Replacement Fund

Use of this fund is restricted to capital equipment replacement and is funded annually by the General Fund at 10% of equipment replacement value.

C. Debt Service Fund

1. 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:

- Special Voter-Approved Levies;
 - Limited Tax Obligation Bonds
 - General Obligation Bonds
2. Under RCW 39.36.020(2), the public may vote to approve bond issues for general government in an amount not to exceed 2.5% of the assessed valuation. Within this 2.5% limit, the District Commission may approve bond issues not to exceed 1.5% of the District's assessed valuation. All voted bonds require a 60% majority approval and to validate the election, the total votes cast must equal at least 40% of the total votes cast in the last general election.
 3. Debt service for voted bond issues are funded with special property tax levies. Debt service for LTGO bond issues are funded through regular property taxes and by interfund transfers.
 4. Debt service for regular levy non-voted bonds is derived from the District's general property tax levy and interfund transfers, and is used to pay principal and interest on capital improvements.

D. 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.

E. 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.

Section 10. Debt Management Policies

- A. The basic objectives of the District's debt management policy are:
- To achieve the lowest possible cost for borrowing;
 - 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.
- B. The PenMet Parks Commissioners approval is required prior to the issuance of debt.
- C. The Executive Director or his or her designee has the authority to act as debt manager in the duties of debt issuance and related repayment activities.
- D. The District will use the services of legally certified and credible bond counsel in the preparation of all presentations.
- E. An independent outside financial advisor may be used to provide the District with objective advice and analysis on debt issuance.
- F. The District will generally issue its debt through a competitive process but may use a negotiated process.
- G. 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.

- H. 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.
- I. 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.

Short Term Debt

- A. 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.
- B. 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.

Long Term Debt

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

- E. Where possible the District will use special assessment revenue, or other self-supporting bonds, instead of general obligation bonds.
- F. 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.
- G. 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.

General Obligation Bonds, Limited General Obligation Bonds and Lease Purchase Policies

- A. 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.
- B. The District shall pay all interest and repay all debt in accordance with the terms of the bond resolutions.
- C. Bonds will not be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
- D. The financing of lease purchases should be done in accordance with (RCW 39.36.020 (2) and RCW 35.42.200).

Section 11. Capital Improvement and Capital Budget Policies

- A. 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.

- B. The District will develop a six-year Capital Facilities Plan (CFP) to identify and coordinate infrastructure, facility, and major pieces of equipment needs and what facilities to construct, their location, timing, projected cost, and funding sources in a way that maximizes the return to the community. The plan is directed at improving the parks and recreational infrastructure for the Peninsula. All capital improvements will be made according to the adopted CFP.
- C. The Capital Facilities Plan will be formulated using an analysis of long-term, overall resources and will include projected funding sources and ongoing operations and maintenance costs. Future changes in economic or demographic factors identified in the financial forecasting process will be incorporated in the capital budget projections. The plan will be updated annually.
- D. The first year of the Capital Facilities Plan will constitute the capital budget for the ensuing budget year. The capital budget and the base operating budget will be reviewed at the same time to assure that the District's capital and operating needs are evaluated in a balanced manner.
- E. The District will determine the least costly financing method for all new projects. Whenever possible, the District will use intergovernmental assistance and other outside resources to fund capital projects. Additional funding may come from designated surpluses in the General Fund and certain special revenue funds as outlined in the operating budget policy.
- F. Projects contained within the CFP will include capital as well as ongoing operating costs.
- G. For the purposes of the CFP a project is defined as any one project or a grouping of similar projects where the cost exceeds \$25,000 and/or a life span of more than 10 years; involves new construction or reconstruction designed to replace an existing system or facility; acquisition of land or structures; involves District funding in whole or in part; or involves no District funding but is the District's responsibility to implement, such as a 100 percent grant funded project.

Section 12. Cash and Purchasing Policies

- A. The Executive Director or his or her designee 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 departments.

- B. Purchase of goods and services will be accomplished by a separate purchasing policy adopted by the PenMet Parks Commissioners.
- C. Payroll costs are authorized by budget adoption.
- D. Expenditures will be within current resource projections at the fund level.