

RESOLUTION NO. 11-10

**A RESOLUTION OF THE CITY OF COVINGTON,
WASHINGTON, RELATING TO AN ENDING FUND
BALANCE POLICY**

WHEREAS, the City Council of the City of Covington has determined that it is in the best interest of the city to adopt a policy for administering Ending Fund Balance; NOW THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COVINGTON, WASHINGTON, AS FOLLOWS:

Section 1. Ending Fund Balance Policy. The City of Covington Ending Fund Balance Policy is adopted as set forth in Exhibit A attached to this resolution and incorporated by reference herein.

Section 2. Effective Date. This resolution shall take effect immediately upon adoption by the council.

PASSED in open and regular session on this 13th day of December 2011.


MAYOR MARGARET HARTO

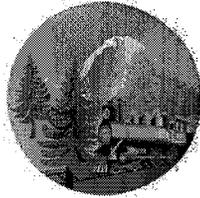
ATTEST:


Sharon Scott, City Clerk

APPROVED AS TO FORM:


Sara Springer, City Attorney

EXHIBIT A



City of Covington Fund Balance Policy

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the City to be in a strong fiscal position that will allow for better position to weather negative economic trends.

Fund Type definitions:

The following definitions will be used in reporting activity in governmental funds.

- **The General Fund** is used to account for all financial resources not accounted for and reported in another fund.
- **Special Revenue Funds** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.
- **Debt Service Funds** are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- **Capital Projects Funds** are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- **Permanent Funds** are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the purposes of the City of Covington's programs.

Fund Balance categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned

- **Nonspendable Fund Balance** consists of funds that cannot be spent due to their form (e.g. prepaids) or funds that legally or contractually must be maintained intact.
- **Restricted Fund Balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
- **Committed Fund Balance** consists of funds that are set aside for a specific purpose by the City's highest level of decision making authority (City Council). Formal action must be taken prior

to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

- **Assigned Fund Balance** consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority (City Council) or official that has been given the authority to assign funds (City Manager). Assigned funds cannot cause a deficit in unassigned fund balance.
- **Unassigned Fund Balance** consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditure and revenue shortfalls. The General Fund is the only fund which can report a positive amount of Unassigned Fund Balance. Conversely, any government fund in a deficit position could report a negative amount of Unassigned Fund Balance.

Nonspendable and Restricted Funds

Nonspendable funds are those funds that cannot be spent because they are either:

- 1) Not in spendable form (e.g. prepaids)
- 2) Legally or contractually required to be maintained intact

Restricted funds are those funds that have constraints placed on their use either:

- 1) Externally by creditors, grantors, contributors, or laws or regulations or other governments
- 2) By law through constitutional provisions or enabling legislation.

Unrestricted Fund Balance

Unrestricted Fund Balance is comprised of Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

Order of Use of Restricted and Unrestricted Funds

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned, and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

Authority to Commit Funds

The City's governing body has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to the end of the fiscal year. If the actual amount of the commitment is not available by the end of the fiscal year, the resolution must state the process or formula necessary to calculate the actual amount as soon as the information is available.

Authority to Assign Funds

Upon passage of the Fund Balance Policy, authority is given to the City Manager to assign funds for specific purposes in an amount not to exceed \$30,000 per purpose or in total to not exceed \$200,000. Any funds set aside as Assigned Fund Balance must be reported to the City Council at their next regular meeting and recorded in the minutes. The City Council has the authority to remove or change the assignment of the funds with a simple majority vote.

The City Council or designee has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

Unassigned Fund Balance

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. Unassigned Fund Balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget amendment by the City Council. In the event of projected revenue shortfalls, it is the responsibility of the Finance Director to report the projections to the City Council on a quarterly basis and shall be recorded in the minutes.

Minimum Fund Balance

An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls. This Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 10% of the General Fund operating expenditures.

The City has elected to require on certain special revenue funds (Street Fund, Parks Fund, and Surface Water Management Fund) a minimum of 10% of operating expenditures in Unrestricted Fund Balance. The Development Services Fund will be required to have a 15% minimum of operating expenditures in Unrestricted Fund Balance.

In the event that the balance drops below the established minimum level, the City's governing body will develop a plan to replenish the fund balance to the established minimum level as economic conditions allow.

Contingency Fund and Cumulative Reserve Fund

It is the City's policy to maintain a Contingency Fund in accordance with RCW 35A.33.145. The reserve will be available for unforeseen, urgent, or emergency needs. The contingency reserve is intended to provide for unanticipated expenditures or revenue shortfalls of a non-recurring nature. The maximum allowable in the contingency reserve is 37.5 cents per thousand dollars of assessed valuation.

It is the City's policy to maintain a Cumulative Reserve Fund in accordance with RCW 35.21.070.