

**KING COUNTY WATER DISTRICT NO. 90  
KING COUNTY, WASHINGTON**

**RESOLUTION NO. 1101**

**A RESOLUTION** of the Board of Commissioners of King County Water District No. 90, King County, Washington, adopting Financial Management Policies.

**WHEREAS**, the District is entrusted with the receipt of revenues from customers of the District as well as obligating customers to the repayment of appropriate financing in order to operate and maintain its water supply; and

**WHEREAS**, it is prudent to have financial policies in place to provide guidance and consistency in decision making by the Board and management;

**WHEREAS**, the District has identified policy goals beneficial to the District, set forth in the attached Financial Management Policies;

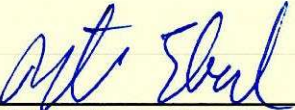
**NOW, THEREFORE, BE IT RESOLVED** by the Board of Commissioners of King County Water District No. 90, King County, Washington, as follows:

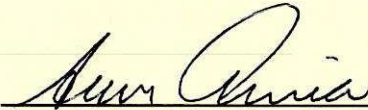
**SECTION 1:** That the District adopts this Resolution adopting the Financial Management Policies attached hereto.

**SECTION 2:** Nothing herein shall be construed to limit the District's other statutory rights, including those rights set forth in RCW 57 et al.;

**SECTION 3:** To the extent a previously-approved resolution is in conflict with this Resolution, any conflict will be resolved with the language of this Resolution

**ADOPTED** by the Board of Commissioners of King County Water District No. 90, King County, Washington, at a regular open public meeting thereof on the 15th day of June 2021.

 6-15-2021  
Pete Eberle, President

 6-15-2021  
Sam Amira, Vice-President

 6-15-2021  
Al Materi, Secretary

# King County Water District No. 90

## FINANCIAL MANAGEMENT POLICIES

### I. POLICY GOAL

The purpose of establishing financial policies for King County Water District No. 90 (KCWD90 or the District) is to promote the financial integrity and stability of our water system and to provide guidance and consistency in decision making for the District's Board and Management. It is intended that these policies be reviewed periodically. The Board of Commissioners reserves the right to make decisions, from time-to-time, which may vary from these policies and/or amend these policies as needed.

The goals of KCWD90's Financial Management Policy:

- Provide a clear vision of how the District will manage its financial resources to provide the best value to the community the water district serves.
- Assist elected officials and staff in the financial management of the District by increasing accountability and minimizing confusion by identifying roles and responsibilities.
- Ensure the long-term financial integrity of the District and reduce risks to the District's long-term financial health.
- Maintain the financial capacity of the District to provide services and accommodate planned capital improvement projects.
- Provide relevant financial information for decision-makers at all levels.
- Maintain a spirit of openness and transparency while being fully accountable to the public for the District's fiscal activities.
- Promote long-term and strategic thinking.
- Providing continuity over time as elected officials and staff members change.
- Employ best management practices, as identified by GFOA or SAO.

While these policies will be amended periodically, they will provide the foundation and framework for many of the issues and decisions facing the District. They will promote sound financial management and assist in the District's stability, efficiency, and effectiveness.

KCWD90 observes and complies with all federal and state laws. The District policy follows "The District policy follows Title 57 Water and Sewer Districts in the Revised Code of Washington (RCW), including RCW 57.20 ("Finances") and RCW 57.08.081 ("Rates and Charges – Delinquencies").

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### **II. Financial Policies - The District's policies address the following major areas.**

- A. General Policies
- B. Revenue Policies
- C. Rate Setting and Rate Sufficiency
- D. Bank Accounts/Funds
- E. Expenditure Policies
- F. Operating Budget Policies
- G. Capital Management Policies
- H. Accounting Policies
- I. Debt Policies
- J. Communication Policies
- K. Compliance Policies
- L. Investment and Cash Management Policies
- M. Reserve Policies
- N. Fraud Policies
- O. Other Related Policies

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### A. General Policies:

1. The Board of Commissioners may adopt resolutions to set financial policies to assure the financial strength and accountability of the District.
2. The General Manager shall develop administrative directives and general procedures for implementing the Board of Commissioners' financial policies.
3. The Finance Manager oversees the day-to-day financial management activities of the District, ensuring the accuracy of the accounting records, internal controls are in place and adhered to, and that financial reports are prepared and communicated to the General Manager and Board in a timely manner.
4. All Departments will share in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and programs will be developed to reflect current policy directives, projected resources, and future service requirements.
5. To attract and retain employees necessary for providing high-quality services, the District shall establish and maintain a competitive compensation and benefits package comparable with the public and private sectors.
6. Efforts will be coordinated with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis, and support favorable legislation at the state and federal levels.
7. The District will initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.
8. The District will strive to maintain fair and equitable relationships with its contractors and suppliers.

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### B. Revenue Policies

1. Current revenues will fund current expenditures. The District will maintain a stable revenue system to protect programs from short-term fluctuations.
2. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, or reliable economic forecasters when available.
3. Maintenance Fund and other unrestricted revenues will not be earmarked for specific purposes unless otherwise authorized by the Board of Commissioners or required by law, or generally accepted accounting practices (GAAP).
4. If revenues from "one-time" (i.e. sale of property) or limited duration sources are used to balance the annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. The District's goal is not to rely on these types of revenues to balance the operating budget.
5. The District will not use deficit financing and borrowing to support ongoing operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised, and expenses will be reduced to conform to the revised long-term revenue forecast, or revenue increases, or transfers from reserves will be considered.
6. The District will collect all revenues in a professional manner, including utilizing all provisions of RCW 57.08.085.
7. Rates and charges for water service shall be sufficient to finance all annual operating expenses, the capital program, debt service, reserve requirements, and less grant funding.
8. Reimbursable work performed by District Staff (labor, contracted services, equipment, inventoried parts, and other indirect expenses) shall be billed at actual or estimated actual costs plus overhead. The overhead charge is currently 20% but is subject to change.
9. The charges for services shall accurately reflect the cost or estimated cost of providing a specific service. Customer class and meter size should be considered when calculating the cost of service.
  - a) The District has identified different customer classes, including residential, multi-family, commercial, irrigation, and fire customers.
  - b) The District has meter sizes from 5/8 inch to 6 inches. Rates for larger services will be calculated on a case-by-case basis.

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10. The District shall maintain a current schedule of charges. This can be found on our website at [www.kcwd90.com](http://www.kcwd90.com).

- a) Water rates are updated annually along with the operating budget process each fall.
- b) Service installation rates are updated every two years by reviewing actual costs from the previous two years.
- c) GFC rates are updated every 5 to 7 years and following Comp Plan updates.
- d) The District will consider market rates (both public and private) when establishing fees and charges. (i.e., vector truck hourly rate.)
- e) The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly.

11. Grant funding for studies, programs, and capital projects should be considered whenever possible.

- a) Prior to acceptance of grants, the District shall consider any ongoing obligations that would be required in acceptance of the grant.
- b) All grants, along with other state and federal funds, shall be managed to comply with the grantor's laws, regulations, and guidance.

### C. Rate Setting and Rate Sufficiency

- 1. Revenue Sufficiency - The Board of Commissioners of KCWD90 generally establishes water rates anticipated to be sufficient on an annual basis to meet all utility requirements for general operating expenses, debt service, rate funded capital costs, and additions to reserves.
- 2. Commissioners may accept a budgeted loss in any one year with the understanding that they can make up that loss in subsequent years or utilize reserve balances to make up the difference.
- 3. The District imposes a General Facility Charge (GFC) on new or expanded development(s) to reflect an appropriate capital investment by new customers commensurate with system costs, including existing assets and future improvements that serve such growth. The GFC represents a new customer "buy-in" to the District's entire system.
- 4. General Facility Charge (GFC) revenue is revenue received from new customers connecting to the water system. GFC revenue is used to fund capital District enhancing infrastructure and/or associated debt service.

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5. In support of the budget process, the District develops a rate forecast as needed. The Board directs changes in water rates and other fees resulting from the rate forecast.
6. Capital Facilities Planning - Comprehensive plans for the District are completed or updated every six to ten years (per RCW 57:16), using a 20-year planning horizon. The District maintains a capital projects schedule, the "Capital Improvement Program" or CIP of at least six years in duration and consistent with the comprehensive long-range plans for the system. The schedule will include the project description, estimated year of construction, and total estimated cost. Various funding sources are also identified.
7. Capital Facilities Funding - The District works to pursue a reasonable capital improvement program through a careful balance of pay-as-you-go capital projects and increased debt.
8. Capital Funding from water rates is the annual contribution transferred from rates to the Construction Fund and is determined by the Board of Commissioners each year. The District uses the Annual Depreciation Total as a reference number for transfers from the District's Operating Fund to the Construction Fund.

### D. Bank Accounts / Funds

1. King County Water District No. 90 has a contract with King County Treasury for Cash Management Services and Investment services effective as of March 16, 2010.
2. The District has four Funds with King County Treasury. These include the Maintenance, Construction, Tank Painting, and Retainage Funds.
3. In addition to District Funds on deposit with the King County Treasurer, KCWD90 has additional accounts with US Bank in Renton, Washington. Accounts include: Deposit Account, Imprest/Petty Cash Account, Payroll Account, an Online payment account, and a Draft Account.
  - a) Except for the Imprest account, all of these accounts are included under the King County Treasury cash management agreement.
  - b) Customer's payments deposited into the deposit account, draft account, and online account are "swept" nightly into the District's maintenance account held by King County Treasury. These accounts are all in the name of and for the benefit of the District.



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4. Cash on hand - All District monies shall be kept on deposit in approved US Bank Accounts or with the King County Treasurer. Except for the following:
  - a) The District has one Cash Drawer with a balance of \$75.00 for making small change for customers.
  - b) The District keeps a Change Bank of small bills in the amount of \$150 in the safe.
5. Maintenance Fund - The Maintenance Fund is the District's primary operating account. The Maintenance Fund is used for operating and maintenance expenses, including labor costs, related to the day-to-day operation of the District.
6. Construction Funds - The Construction Fund is used for Capital purchases and District Capital projects. A Capital project includes new construction, expansion or renovation of the District's assets and infrastructure. A capital project must have a total cost of at least \$5,000 and have a useful life of more than one year.
7. Retainage Fund - The District keeps monies belonging to third parties in a separate account called the Retainage Fund. Balances in the Retainage Fund include deposits from developers, deposits for hydrant rental, contractor Retainage, maintenance guarantees, and deposits in-lieu of construction. Interest Income earned on the Retainage fund is transferred to the Construction account and is counted as Construction Fund Interest Income. Refunds are issued directly from the Retainage account when applicable and are paid through the District's voucher process.
8. Warrants (aka vouchers or checks) are issued, at District direction, by King County Treasury, from the Maintenance, Construction, and Retainage funds depending on the nature of the expense. If circumstances merit, warrants and/or ACH payments may be approved at special board meetings, provided such meetings have been appropriately posted for notice.
  - a) The warrant request form, called "Special District Voucher Approval Document," has been provided by King County Treasury and includes the check sequence number, the date of issue, the vendor, a description of the goods or services purchased, and the amount of the check.
  - b) The Board of Commissioners reviews the summary of all District warrants and Automated Clearing House (ACH) payments to be issued on behalf of the District at its regularly scheduled meetings for review and approval.

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- c) On a rotational basis, every three months, one Commissioner reviews the detailed backup for warrants requested to be paid. Backup materials may include invoices, packing slips, delivery slips, letters, or contracts. Commissioners are encouraged to ask questions clarifying warrant payments before, or at, each Board meeting.
9. Tank Painting Fund - Periodically, the District is required to engage in the significant maintenance expense of painting the District's reservoirs. The goal for the Tank Painting Reserve is to provide a source of funding for these large maintenance items as they arise. While reservoirs need only to be painted every 20 to 30 years, the cost of this maintenance expenditure can easily exceed one (1) million dollars.
- a) This District has six (6) reservoirs that will need to be painted within the 20-year period, along with two (2) concrete reservoirs that do not require painting.
  - b) The tank painting fund was begun in 2015, after painting Tank #2 and performing repair and maintenance functions of Tanks 1, 3A, 3B, 4, 5, 6, and 7.
  - c) The actual amount of the reserve will be established by the Commissioners during the annual budget process to meet this reserve target prior to the next scheduled tank painting.
10. Deposit Accounts – All monies collected from customers are receipted and deposited into one of the Deposit accounts at US Bank - The District has the following deposit accounts with US Bank.
- a) Main Deposit Account (#5543) – used for daily payments batches collected and processed at the District Office, including cash. It also includes daily payment batches from online clearinghouses, including Fiserv, FIS, and CSI. Construction and Retainage deposits are deposited into this account and swept daily into the maintenance account.
  - b) Online Deposit Account (#5115) – used for daily deposits from the District's online billing partner, Invoice Cloud.
  - c) Draft Deposit Account (#5848)– The Draft account is a separate deposit account used for customer payments that are "pulled" (or drafted) from a customer's account. The District's customers can sign up for "Autopay," which authorizes the District to deduct the total amount of a customer's bill, from a checking or savings account, on the due date. There is no fee to the customer for this service.

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### 11. Deposit guidelines:

- a) All District funds received shall be deposited at US Bank at least two times per week, except for cash. Cash shall be deposited at least one time per week or when there is a significant amount of cash in the deposit (i.e., over \$1,000).
- b) The Cash Drawer shall be balanced, and funds deposited daily. Any out-of-balance conditions (Cash Over/Short) shall be reported on the "Daily Receipts Recap" for the Finance Manager to review and post. Cash over/short conditions of more than \$100 shall be reported to the District Manager and the Board of Commissioners no later than the next regular board meeting.
- c) The District's Billing system, InHance, shall provide a numerically sequential receipt and a unique transaction batch number for all financial transactions for customer water payments.
- d) Construction, Retainage, and miscellaneous deposits are manually receipted using a sequentially numbered receipt book.
- e) Most customer payments are made by check or credit card. Customers pay with cash infrequently. In 2020 the District automated check payments from customers to be scanned and electronically sent to US Bank each day. This automation means that District staff are no longer required to take daily deposits to the bank.
- f) Cash deposits are processed and applied to customer accounts the day they are received. Cash deposits are physically taken to the bank at least one time per week.
- g) Customer transactions and/or payments received after 3:00 p.m. of each business day shall be credited on the next business day.
- h) The Finance manager prepares a monthly transfer of funds to move Construction and Retainage related deposits to the correct fund with King County Treasury.

### 12. Imprest (Petty Cash) Account -

- a) The District maintains an Imprest Account in the amount of \$10,000, established by the Board of Commissioners on August 7, 2012. The Imprest account is essentially a petty cash account that is reimbursed through the District's voucher process.
- b) Reimbursements to the Imprest Account may be made from either the Maintenance Fund or Construction Fund, depending on the nature of the expenses.

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- c) The Finance Manager or Board-approved designee acts as custodian of the Imprest account.
  - d) The District Manager and the Operations Manager have check signing authority on the Imprest account.
  - e) Imprest Fund checks are limited to the purchase of minor office supplies, small tools and equipment, postage, credit card payments, customer account refunds, permits, and other de minimis or time-sensitive expenses.
  - f) The Imprest account does not include reimbursements to employees for travel, tests, or training. These reimbursements are made via payroll.
  - g) All Imprest checks shall be supported by detailed receipts or invoices and reviewed and approved by the Finance Manager and reviewed by the Commissioners.
  - h) The District Accounting Lead, or approved designee, shall prepare a monthly reimbursement of the Imprest Account using the "Imprest Account Reimbursement Form" to replenish the fund balance. See Attachment "A" of this policy.
  - i) The Reimbursement form will include the Date, Name of the Payee, Check Number, Amount, GL Account Number, and a Description of the item purchased. In addition, a copy of each detailed receipt will be attached to the Reimbursement Form for review by the District Commissioners.
  - j) All Imprest Account reimbursements will be provided to the Board of Commissioners at regularly scheduled Board meetings.
  - k) All uncashed warrants (aka vouchers or checks) will be submitted to Washington Unclaimed Property in October of every year.
  - l) The Finance Manager will reconcile the Imprest bank account monthly. The District's General Manager will review the reconciliation.
13. Payroll Account –
- a) The District maintains a Payroll account with US Bank in Renton, Washington. Funds, in the total amount of payroll, are transferred from the Maintenance Fund to the Payroll Account prior to each pay date.

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- b) The District's pay periods are the 1st to the 15th and the 16th to the last day of the month. The District's pay dates are no later than the 5th and the 20th of each month. If these dates fall on a weekend, the pay date is moved to the last business day before the 5th and the 20th. Pay dates are per the District's Collective Bargaining Agreement between the District's Union Employees and the Communication Workers of America (CWA).
- c) Employees are required to be paid via Direct Deposit initiated from this Payroll Account. Employee reimbursements for mileage, training, and other expenses are also reimbursed with each regular payroll.
- d) Employee reimbursements are reviewed by the Accounting Lead as well as the Finance Manager before approval. All employee reimbursements require detailed receipts or invoices or a confirmation of distance (i.e., MapQuest or Google maps) for mileage reimbursements.
- e) Reimbursements made to employees via payroll include travel, licenses, tests, classes, or other employee training.

### E. Expenditure Policies

1. The District will strive to adopt an annual Operating budget in which current expenditures do not exceed current projected revenues. Unusual circumstances and conservative budgeting may allow for current expenditures to exceed revenues from time to time. An adequate explanation shall be provided to decision-makers and documented.
2. The District may take corrective actions if at any time during the fiscal year expenditure and revenue estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or the use of contingencies.
3. The District may approve a short-term interfund transfer or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.
4. Long-term debt or bond financing shall not be used to finance current operating expenditures.
5. Capital expenditures may be funded from one-time revenues.
6. The District may invest in technology and other efficiency tools to maximize productivity.
7. The District may hire additional staff only after the need for such positions has been demonstrated and documented.

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8. All compensation planning will focus on the total costs of compensation, including direct salary, health care benefits, pension contributions, and other benefits, which are a cost to the District.
9. Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.
10. The District will make every effort to maximize any discounts offered by creditors/vendors.
11. Expenditures requiring bidding will comply with the District's Procurement policy approved by Resolution 1075 in May of 2020.
12. Under "emergency conditions," the General Manager may negotiate and execute, with prior authorization from the President or acting President of the Board of Commissioners (where practicable), contracts the General Manager deems necessary to address such emergency conditions. The District's General Counsel shall review and attest to the form and content of the contract before execution, if possible.
13. If an emergency condition was declared and a contract was negotiated and executed by the General Manager as a result of the emergency condition. In that case, the General Manager shall report to the Board of Commissioners at the next scheduled Board meeting all contracts executed under the emergency condition.

### F. Operating Budget Policies

1. KCWD90 prepares an annual budget document for each calendar year (January 1 - December 31) that provides a basic understanding of the planned spending for its regular operating expenses for the coming year.
2. The District will adopt and maintain a balanced annual operating budget where current yearly operating revenues will be equal to or greater than current operating expenditures.
3. If a balanced budget is not attainable and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.

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4. The operating budget shall serve as the annual financial plan for the District. It will serve as the District's policy document for implementing the Board of Commissioners' goals and objectives. The budget will provide the staff the resources necessary to accomplish the determined service levels.
5. Any year-end operating surpluses will revert to unappropriated balances to maintain reserve levels set by policy and be available for capital expenditures.
6. The District will provide for adequate maintenance and the orderly replacement of capital assets and equipment.
7. The Finance Manager shall present a draft operating budget to the Board of Commissioners in November. The Board of Commissioners must adopt a final budget no later than December 31.
8. Funds may not be expended or encumbered for the following fiscal year until the Board of Commissioners has adopted the budget. This does not apply to prepaid expenses.
9. Parity Debt Service Coverage Ratio of 2.00X or higher - The District shall strive to maintain a minimum target goal for "parity debt service coverage ratio" (gross revenue of the utilities less operating and maintenance expenses (not including depreciation, taxes, and debt payments) of 2.00 times or higher on the combined parity annual debt service payments.
10. Periodically, long-term revenue and expenditure forecasts will be prepared to examine the District's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements. The forecast will encompass at least six years.

### G. Capital Management Policies

1. The District will develop a Capital Improvement Plan (CIP) as defined and required by RCW 57.16.010, consistent with the District's Comprehensive Plan. The plan shall be for a period of six years.
2. The capital program incorporates system expansion, upgrades and improvements, and system repair and replacement.
3. The CIP will include all projects to maintain capital facilities required to maintain service levels at standards established by the Board of Commissioners.
4. In conjunction with establishing or planning its capital program, the District maintains a six-year capital-financing plan that supports the execution of that program and is capable of sustaining long-term utility capital requirements.
5. The Comprehensive Plan will include a 20-year CIP funding forecast.

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6. The CIP will provide details on each capital project plan, including estimated costs, sources of financing, and a complete description of the project.
7. The District will finance only those capital improvements that are consistent with the adopted CIP and District priorities.
8. CIP projects can be updated, changed in scope, and modified from the original Comprehensive Plan based on new information, design, contract or permit conditions, and/or funding restrictions.
9. All costs to operate and maintain a capital asset will be included in the operating budget.
10. An annual review of the CIP will be conducted via the Six-Year Capital Spending Plan updated in December and approved by the Board in January or February of every year.
11. Monthly reports on year-to-date capital spending compared to budgets are prepared by the Finance Manager and shared with the Board and Management team monthly.
12. Capital Asset Management
  - a) The District will maintain its capital assets at a level adequate to protect the Districts' capital investment and to minimize future maintenance and replacement costs.
  - b) The capitalization threshold used in determining if a given asset qualifies for capitalization is \$5,000 per item with a useful life of over one year.
  - c) All portable capital assets shall have a District property tag affixed to it when placed into service.
  - d) Minor equipment that falls below the \$5,000 threshold but is subject to shrinkage shall be color-coded to the truck or tool cabinet, where it is stored and will be accounted for on the "Small and Attractive" inventory list. Small and Attractive items are inventoried annually at year-end.
  - e) The Finance Department will oversee the annual physical count of all capital assets, small and attractive equipment and parts inventory, and year-end. KCWD90 will maintain accurate inventories of all physical assets and cost to ensure proper stewardship of public property.
  - f) Adequate insurance will be maintained on all capital assets consistent with the annual physical count/inspection results.



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## H. Accounting Policies

1. Accounting methods employed by the District shall, at a minimum, conform to a comprehensive basis of accounting in compliance with Washington State statutes and with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA) where applicable.
2. The District uses generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The District's financial statements are presented based on the full accrual basis of accounting.
3. Revenues are recognized when earned, and expenses are recognized when incurred, regardless of the timing of related cash flows. Unbilled utility service receivables are accrued at year-end.
4. The District distinguishes between operating revenues and expenses and non-operating revenues and expenses. Operating revenues and expenses result from providing services and from producing and delivering water to customers. The principal operating revenues of the District are charges to customers for water and other related services. Operating expenses pertain to the furnishing of those services, including the costs of water, employee costs, administration expenses, taxes, and depreciation expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.
5. Monthly financial and budget reports (operating and capital) showing the status of revenues and expenditures will be prepared and presented to the Commissioners at the second Regular Board Meeting each month.
6. The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.
7. The Annual Financial Report will be prepared based on Generally Accepted Accounting Principles (GAAP) and demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor. The report will provide full disclosure of all financial activities and related matters.
8. Annually a financial audit shall be performed by the Washington State Auditor's Office, which will issue an opinion on the financial statements. An accountability audit (i.e., accountability for public resources and compliance with state laws and regulations and its own policies and procedures) shall be performed at least once every two years by the Washington State Auditor's Office.
9. The District Manager may administratively surplus office equipment, computer equipment, small tools, computer software, and minor equipment with a value

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of less than \$5,000. Titled vehicles, real property, and any District property with a greater than \$5,000 value will be surplused by resolution. The District Manager shall report to the Commissioners, at their next regular business meeting, any property administratively surplused.

10. Property where the expected value is less than the cost to surplus may be destroyed, donated to another governmental agency or local community non-profit. District personnel and their immediate families cannot purchase surplus equipment unless approved by the District Manager and as part of the public bid process.

### I. Debt Policies

1. The District will maintain, at all times, debt issuance and management policies that are fiscally prudent, consistent with state and federal laws, and reflect the District's unique municipal status and limitations.
2. Local Rules and Regulations – The District shall issue and manage debt in accordance with the limitations and constraints imposed by local rules, policies, and regulations.
3. Credit Ratings - The District will do everything in its power to attain and maintain the highest possible credit rating for its outstanding bonds, including producing balanced budgets and financial statements with "clean" audit opinions annually, implementing and maintaining sound financial and debt management policies, and practices, and maintaining regular communications with the major rating agencies.
4. Long Term Debt -The District will maintain debt ratios and prudent practices in light of industry standards, rating agencies' benchmarks, and the District's long-term financial health. The District will seek to balance the need for improvements to its capital infrastructure with the need to maintain reasonable debt ratios and debt services expense levels.
5. Capital Planning - The District shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays, and competing projects. Long-term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs.
6. Compliance with Arbitrage Regulations - The District shall contract with a reputable firm to perform annual analyses of the District's investment and expenditure of bond proceeds to ensure compliance with federal arbitrage regulations.

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### 7. Debt Roles and Responsibilities

- a) The Board of Commissioners shall:
  - I. Approve indebtedness.
  - II. Approve the appointment of the bond underwriter and bond counsel.
  - III. Approve the Financial Management Policy, including the section on the Debt Policy.
  - IV. Approve budgets sufficient to provide for the timely payment of principal and interest on all debt.
- b) The General Manager and/or Finance Director, in consultation with the Commissioners, shall:
  - I. Assume primary responsibility for debt management.
  - II. Submit to the Commissioners all recommendations to issue debt.
  - III. Provide for the issuance of debt at the lowest possible cost and risk.
  - IV. Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures.
  - V. Recommend to the Commissioners the manner of sale of debt.
  - VI. Monitor opportunities to refund debt and recommend such refunding when appropriate.
  - VII. Comply with all Internal Revenue Service (IRS), Securities and Exchange (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance of debt.
  - VIII. Provide for the timely payment of principal and interest on all debt and ensure that the fiscal agent receives funds for payment of debt service on or before the payment date.
  - IX. Provide for and participate in the preparation and review of offering documents.
  - X. Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued.
  - XI. Provide for the distribution of pertinent information to rating agencies.

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- XII. Comply with undertakings for ongoing disclosure pursuant to SEC Rule 15c2-12.
  - XIII. Apply and promote prudent fiscal practices.
- 8. Ethical Standards Governing Conduct - The members of the District staff will adhere to the requirements contained in the District's Procurement Policy, Personnel Policy, the Public Records Act, RCW 42.56, and standards of conduct contained in the Code of Ethics for Municipal Officers statute, RCW 42.23, as applicable. In addition, Commissioners follow conduct as outlined in the Commissioners Handbook and adopted by Resolution #1094 on 2/2/2021.
  - 9. Types of Debt Financing - The District may utilize several types of municipal debt obligations to finance long-term capital projects, including, but not limited to, the following:
    - a) Revenue Bonds – The District shall use Revenue Bonds as permitted under State law for financing construction or improvements to facilities of District systems operated by the District per the Capital Improvement Plan.
    - b) Special Assessment/Utility Local Improvement District Bonds – The District shall use Special Assessment Bonds as permitted under State law to assure the greatest degree of public equity in place of general obligation bond where possible.
    - c) Utility Local Improvement District (ULID) Bonds represent debt that is repaid by the property owners who specifically benefit from the capital improvements through annual assessments paid via property taxes and forwarded to the District. ULID's are formed by the District after a majority of property owners agree to the assessment. No taxing power or general fund pledge is provided as security, and ULID Bonds are not subject to statutory debt limitations. The debt is backed by the value of the property within the LID and a LID Guaranty Fund, as required by State Law.
    - d) Short Term Debt – The District may use short-term debt as permitted by State law to meet any lawful purpose of the municipal corporation, including the immediate financing needs of a project for which long-term funding has been secured but not yet received.
    - e) Long Term Debt – The District may use long-term debt as permitted by State law to meet any lawful purpose of the municipal corporation, including the financing needs of a capital project.
    - f) Leases – The District is authorized to enter into leases under State law, subject to the Commissioners' approval.
    - g) Public Works Trust Fund Loans and State Drinking Water Revolving

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Fund Loans – The District shall use Public Works Trust Fund Loans and State Revolving Fund loans as provided under State law to repair, replace or build District Capital Assets.

### 10. General Requirements of debt funding.

- a) The District will not use long-term debt to pay for current operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.
- b) The term of the debt shall never extend beyond the useful life of the improvements to be financed.
- c) The general policy of the District is to establish debt repayment schedules that use level annual payments of both principal and interest.
- d) Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond resolution or 2) payment of debt service on the bonds.
- e) Proceeds from debt will be used in accordance with the purpose of the debt issue. Funds remaining after the project are completed will be used according to the provisions stated in the bond resolution that authorized the issuance of the debt.
- f) The District will use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements. In no case will the District lease- purchase equipment whose useful life is less than the lease term.
- g) The District will maintain its bond rating at the highest level fiscally prudent to minimize future borrowing costs, and access to the credit market is preserved. The District will encourage and maintain good relations with financial bond rating agencies and follow a full and open disclosure policy.
- h) The District shall use refunding bonds per the Refunding Bond Act, RCW 39.53. Unless otherwise justified, the District will refinance debt to achieve actual savings as market opportunities arise. Refunding debt shall never be used to avoid debt service obligations. A target 5% cost savings (discounted to its present value) over the remainder of the debt must be demonstrated for any "refunding" unless otherwise justified.

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### J. Communication Policies

1. It is the policy of the District to remain as transparent as possible.
2. The District shall manage relationships with the rating analysts assigned to the District's credit, using informal and formal methods to disseminate information.
3. The District's Basic Financial Statements and Notes shall be a vehicle for compliance with continuing disclosure requirements. The Notes to the Financial Statements may be supplemented with additional documentation as required.
4. Each year included in the Notes to the Financial Statements, the District will report its compliance with debt targets and the goals of the Debt Policies.
5. The District shall seek to maintain and improve its current bond rating.

### K. Compliance Policies

1. Investment of Proceeds - The District shall comply with all applicable Federal, State, and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds, and restrictions on the time period over which some of the proceeds may be invested.
2. Legal Covenants - The District shall comply with all covenants and conditions in governing law and any legal documents entered into at the time of a bond offering.

### L. Investment and Cash Management Policies

1. Cash and Investment programs will be maintained per District regulations and will ensure that proper controls and safeguards are maintained.
2. District funds will be managed in a prudent and diligent manner, emphasizing the safety of principal, liquidity, and financial return on principal, in that order.
3. The District invests funds with the King County Investment Pool. The King County Investment Pool Policy is attached to this policy as Attachment E.
4. The District will maintain written guidelines on cash handling, accounting, adjustments, segregation of duties, and other financial matters.
5. The District will conduct periodic reviews of its internal controls and cash handling procedures.

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### M. Reserve Policies

1. Reserve balances are set aside for a specific project, task, covenant requirement, and/or emergency. These balances are maintained in order to meet short-term cash flow requirements while at the same time minimizing the risk associated with meeting financial obligations and continued operational needs under adverse conditions.
2. The District targeted 3 million dollars, split between the Maintenance and Construction fund, in total reserves by 2016. In 2020 Targets for District reserves were increased as follows:

<b>Fund Ending</b>						
<b>Balance by Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Maintenance</b>	\$1,500,000	\$1,600,000	\$1,700,000	\$1,800,000	\$1,900,000	\$2,000,000
<b>Construction</b>	\$1,500,000	\$1,600,000	\$1,700,000	\$1,800,000	\$1,900,000	\$2,000,000

3. Reserve funds will be held by the Maintenance and Construction Funds and can be corroborated by the ending Fund balance. Reserve balances are expected to vary during the calendar year. Reserves are held to meet the following reserve goals.
4. Operating Reserve - The purpose of an Operating Reserve is to maintain financial viability of the utility despite short-term variability in revenues and expenses, primarily caused by billing cycles, payroll cycles, accounts receivable/payable, weather variability, and unexpected system changes. In addition, the Operating Reserve provides the District protection from well failure. The Operating Reserve targets are reviewed as part of the budget process each year. In general, the operating reserve should cover about six months of District Operating expense.
5. Tank Painting Reserve - Periodically, the District is required to engage in the large maintenance expense of painting the District's reservoirs. The goal for the Tank Painting Reserve is to provide a source of funding for these large maintenance items as they arise. While reservoirs need only to be painted every 20 to 30 years, the cost of this maintenance expenditure can easily exceed one (1) million dollars. This District has six (6) reservoirs that will need to be painted within 30 years, along with two (2) concrete reservoirs that do not require painting.
  - a) This is a new reserve that started in 2015, after the completion of painting Tank #2 and performing repair and maintenance functions of Tanks 1, 3A, 3B, 4, 5, 6, and 7. The actual amount of the reserve will be established by the Commissioners during the annual budget process to meet this reserve target before the next scheduled tank painting.

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6. Capital Funding Reserve - The District also maintains a Capital Funding Reserve. This account is to be used for non-planned or emergency CIP projects or planned CIP projects if other funding sources are insufficient to cover these expenditures.

- a) If a portion of this fund is used for unexpected or emergency operating expenses. In that case, it must be replenished according to a schedule as determined by the Board of Commissioners during the annual budgeting process.

### N. Fraud Policies

1. It is the District's goal to prevent, detect and eliminate all forms of fraud. The District has established these and other financial procedures and policies to promote consistent organizational behavior by providing guidelines for District personnel.
2. Scope of Fraud Policy - This policy applies to any irregularity or suspected irregularity involving employees, commissioners, consultants, vendors, contractors, or any other outside agency, engaging in a business relationship with the District.
3. Any fraud investigation will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the District.
4. Responsibility & Investigation - Management is responsible for detecting and preventing fraud, misappropriations, and other irregularities.
5. Fraud is defined as the intentional, false representation or concealment of a material fact to induce another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility and be alert for any indication of irregularity.
6. Any irregularity detected or suspected must be reported immediately to the District Manager, who coordinates all investigations with the legal counsel in conjunction with the President of the Board. If fraud is suspected by the District Manager or President of the Board, the Finance Manager shall act as a substitute. All suspected fraud is to be reported promptly to the Board of Commissioners.
7. If the investigation substantiates that fraudulent activities have occurred, the District Manager will inform the Commissioners and the Finance Manager to inform the State Auditor's Office.
8. The Board will decide to prosecute or refer the investigation results to the appropriate law enforcement agency for an independent investigation of Commissioners.



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9. Actions Constituting Fraud - Fraud terms such as misappropriation or other fiscal irregularities refer to, but are not limited to the following:
- a) A dishonest or fraudulent act.
  - b) Misappropriation of funds, supplies or other assets.
  - c) Impropriety in handling or reporting of money or financial transactions.
  - d) Profiteering as a result of insider knowledge of District activities.
  - e) Disclosing confidential and proprietary information to outside parties.
  - f) Accepting or seeking anything of material value from contractors, vendors, or persons providing services or materials to the District.
  - g) Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment.

### O. Other Related Policies

The District has other policies that are meant to be used in conjunction with this policy. The District employee manual includes the following:

- a) Appendix A – Imprest Account Reimbursement Form
- b) Appendix B – Credit Card Policy
- c) Appendix C – Education and Training Policy
- d) Appendix D – Small tools, Equipment and Capital Asset Inventory Policy
- e) Appendix E – Procurement Policy
- f) Appendix F – King County Investment Policy
- g) Appendix G – Collective Bargaining Agreement between KCWD90 and CWA