

## **Budget Policy**

The County's budget policies, stated below, set forth the basic framework for the development and administration of the County's budget. These policies are intended to clarify Board Policy for the elected officials, appointed department heads and the public.

### **Budget Period – Biennium**

The Revised Code of Washington 36.40.250, allows counties to establish a biennial budget starting with odd-numbered years. Kitsap County, with the approval of Ordinance No. 271–2002, converted to a two-year budget cycle beginning with the 2003 – 2004 biennium. The County establishes a biennial budget period for all budgeted funds.

Appropriations within the biennium will be segregated into two discrete fiscal years.

### **Budget Organization – Funds**

The County's accounting and budgeting systems are organized and operated on a fund basis. Funds are accounting entities used to record revenues and expenditures. The budget of each fund is balanced meaning total revenues equal total expenditures.

Budgeted funds are grouped into six categories: General, Special Revenue, Debt Service, Capital Projects, Enterprise, and Internal Service funds. The County will budget all funds in each of these categories.

### **Budget Organization – Budget Basis**

The six fund categories are grouped into two fund types: Governmental Fund Type including general fund, special revenue, debt service and capital projects funds, and Proprietary Fund Type including enterprise and internal service funds. Budgets for governmental fund types are established on the modified accrual basis. Budgets for proprietary fund types are established to approximate sources and uses of funds. This sources and uses of funds basis differs from the full accrual basis used in proprietary fund accounting. Following are the major sources of this difference:

- 1) No appropriation is made for depreciation, amortization and similar non-cash expenses.
- 2) Proceeds of debt and asset sales are budgeted as sources of funds.
- 3) Payments for acquisition of capital assets and debt principal payments are budgeted as expenditures.

### **Budget Adoption – Fund / Department Level**

In order to facilitate an efficient budget administration, the County will legally adopt the budget at the department level within each fund.

### **Budget Administration – Expenditure Categories**

For purposes of maintaining adequate internal control of expenditures, the budget will be administered at a greater level of detail than that at which it is legally adopted. Accordingly, appropriations will be controlled in each fund and department by grouping them into the following categories; however, there will be no transfer allowed from or to salaries and benefits without Board of Commissioner approval:

- 1) Salaries & Benefits
- 2) Supplies, Services & Taxes
- 3) Capital
- 4) Debt Service
- 5) Transfers / Other

Department heads shall be limited to expending the amount appropriated within the department for each of these expenditure categories. Appropriations may be further delineated into more specific line items at the discretion of the

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department. The County Auditor will enforce expenditure limitations at the category level. As long as expenditures do not exceed the appropriation in any category, departments may transfer appropriation authority within the line items of any category as necessary.

#### **Budget Administration - Budget Amendments**

Budget adjustments are required when either (1) a department's total expenditures within an expenditure category will exceed its appropriations, or (2) when a department intends to allocate money for an item, activity or position which was not included in the original budget. Budget Amendments are required when expenditures and or revenue are necessary and will exceed the Department's total budget for each fund or when expenditures or revenue needs to be transferred between funds.

The Department of Administrative Services processes all requests for budget amendments. Amendments will be done on a quarterly basis at the first Commission meeting in March, June, September and the last meeting in December.

If the requested adjustment changes the authorized staffing or budget total for the department, the Department of Administrative Services verifies that sufficient resources are available in the department's budget for the adjustment, and prepares a resolution for consideration by the Board of Commissioners to accomplish the change.

The Budget Manager presents the resolution to the Board of Commissioners for approval or disapproval.

#### **Budget Administration – Mid-Biennium Review**

During the first year of each biennium, the County will conduct a mid-biennium budget review as required by statute and rules promulgated by the State Auditor. Changes to the second year of the biennium may be necessary at that time. Quarterly review of expenditures and revenues will take place with the Board of Commissioners and early warnings to changes in the budget will be reviewed at that time and appropriate action will be recommended.

#### **Budget Administration –Appropriations Carry-Forward**

Generally, unspent appropriations in the expenditure categories of Salaries & Benefits, Debt Service, and Transfers / Other will not carry forward to the second year of the biennium while those in the categories of Supplies, Services & Taxes and Capital will carry forward. All Grants will carry-forward from the first year to the second year of the biennium.

The Department of Administrative Services will review with each departments unspent appropriations remaining at the end of the year. The Director of Administrative Services will ask each Department for amounts they will like to carry- forward and for what purpose. During the last quarter of the year the Department will submit a report to the County Administrator and the Board of Commissioners recommending what portion of these unspent appropriations to re-appropriate for the following year and the justification therefore.

All appropriations lapse at the end of each biennium.

#### **Budget Monitoring**

Each Elected Official and Department Head will be responsible for monitoring their department's budget. The Director of Administrative Services will send out quarterly expenditure and revenue reports to each Department.

The reports must be reviewed by the Elected Official or Department Head and return a signed sheet saying the report was reviewed. All major deviations must be explained in writing as to why a department is under or over in expenditures or revenue collections. This information will be used in the Director of Administrative Services' quarterly budget update and report to the Board of Commissioners.

## **Investment Policy**

### **I. GENERAL**

The Kitsap County Investment Policy is to be taken in its entirety including attached addendum that may define, delineate, or clarify certain criteria contained within its subsections. All criteria for an individual investment must be adhered to even though applicable standards may be found in various sections of this Policy.

### **II. SCOPE**

This Policy applies to all available cash assets of Kitsap County and funds under the management of the County Treasurer as primarily defined under RCW 36.29.020. The primary focus of this Policy is the Kitsap County Investment Pool established in 1987 as the most effective method for investment management of County Funds and its junior taxing districts.

### **III. PRUDENCE**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Employees of the Treasurer's Office involved in the investment process and acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for credit and market risks encountered in the performance of their investment duties. Due diligence requires timely reporting of material deviation from expectations and such other actions as may be possible in consideration of the particular circumstances and within the provisions of this policy.

### **IV. DELEGATION OF AUTHORITY**

Authority granted to the County Treasurer to manage the investment portfolio is derived from state statute and further augmented by written agreement with those entities independent of the County for whom this office pools investments.

Management of all investments is delegated to the Investment Officer by the Kitsap County Treasurer. Limited authority to initiate transactions with the State Local Government Investment Pool have been granted to specific officers and investment personnel. These authorized personnel are listed in Addendum One(1). No person may initiate investment transactions on behalf of this office except as provided herein, and with the express consent of the County Treasurer or the Investment Officer after consultation with the Treasurer.

### **V. ETHICS AND CONFLICTS OF INTEREST**

Employees of the Investment office shall disclose to the County Treasurer any material financial interests in financial institutions that conduct business with the County, and they shall further disclose any personal investment positions that could be related to the performance of investments falling under the scope of this policy. All employees and officers of the Investment office shall subordinate their personal investment transactions to those of the investment portfolio.

### **VI. INVESTMENT OBJECTIVES**

The primary objective is the preservation of capital. This objective is measured in cash, as opposed to accounting terms where different, and in terms of the portfolio as a whole, as opposed to the terms of any individual transaction.

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The secondary objective is liquidity. The investment portfolio will remain sufficiently liquid to enable Kitsap County to meet all cash requirements which might be reasonably anticipated.

The third objective is return. Kitsap County's investment portfolio shall be designed with the objective of attaining the maximum return consistent with the first two objectives.

#### **VII. INVESTMENT STRATEGY**

The investment portfolio will be professionally managed using active rather than passive management techniques. Through an active approach securities are bought and sold to obtain greater than market yield and credit risk protection than might have been obtained using a strict hold to maturity approach. With this approach it is recognized that losses on individual securities may be taken to improve the overall positioning of the portfolio in anticipation of, or in reaction to, overall changes in market prices, yield curve structure, credit quality, or extraordinary cash flow demands.

#### **VIII. AUTHORIZED INVESTMENTS**

The types of securities authorized for investment are limited by state statute, principally RCW 39.29.020. All securities authorized by statute will also be authorized for Kitsap County.

Among the authorized investments are US Treasury and agency securities (i.e., obligations of any government sponsored corporation eligible for collateral purposes at the Federal Reserve), repurchase and reverse repurchase agreements for collateral otherwise authorized for investment, municipal bonds of this state or local bonds of this state with one of the three highest ratings of a national rating agency at the time of investment, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Public Deposit Protection Commission at the time of investment, foreign and domestic bankers' acceptances, and the Washington State Local Government Investment Pool.

The State of Washington Local Government Investment Pool is the only government sponsored pool or mutual fund approved for investment of Kitsap County funds.

Although authorized for investment, Collateralized Mortgage Obligations and related mortgage backed products are restricted to those meeting the investment guidelines established by the Federal Financial Institutions Examination Council (FFIEC). The investment officer must have written approval of the County Treasurer before initiating a program of purchasing mortgage-backed or related securities.

The current market prices and information available on the Investment Office market information system may be utilized in lieu of competitive bidding to insure fair and current prices on all investment transactions.

#### **IX. INVESTMENT POOLS**

Review of the Washington State Local Government Investment Pool (LGIP) will be made at least annually. The Investment Policy and Monthly and Annual Reports of the LGIP will be reviewed for appropriateness of security selection and maturity, financial integrity of the pool, safekeeping of the pool's assets, and procedures for the calculation and distribution of earnings.

#### **X. COLLATERALIZATION**

Collateralization at a minimum of 102% of market value of the underlying security plus any accrued interest is required on repurchase agreements. Collateral is limited to the types of securities authorized in Section VIII. above. Collateral is to be held by an independent third party with whom the Investment Office has a current custodial agreement, and a safekeeping receipt for the collateral is to be provided to the office.

A completed master Repurchase Agreement is required with the counterparty prior to execution of any repurchase or reverse repurchase transactions. The counterparty must be an authorized bank or broker-dealer.

**XI. SAFEKEEPING/CUSTODY AND DELIVERY**

Securities purchased by the office, as well as collateral for repurchase agreements, are to be held in a custodial account in the safekeeping or trust department of a bank acting as a third party custodian. All securities transactions processed by the custodian on behalf of the County are to be on a delivery-versus-payment (DVP) only basis.

**XII. DIVERSIFICATION**

With the exception of US Treasury and agency securities and the State Local Government Investment Pool, no more than 25% of the investments will be in a single security type or on deposit with a single financial institution.

**XIII. MATURITIES**

Maturities are to be selected consistent with the objectives as stated in Section IV of this policy.

The Kitsap County Investment Pool will be restricted to a final maturity of not more than five years. The average duration or average weighted maturity of the Investment Pool will be managed to optimize return after the objectives of capital and liquidity are satisfied.

Investments outside of the Kitsap County Investment Pool may have maturities consistent with specific cash flows and debt maturity requirements.

**XIV. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Investment Officer will maintain a list of authorized banks and broker-dealers, which will be limited to primary dealers or other dealers that qualify under SEC Rule 15C3-1, the Uniform Net Capital rule.

No certificates of deposit will be made except in qualified public depositories as provided in RCW 39.58.

The financial condition of authorized banks and broker-dealers will be reviewed at least annually. Current audited financial statements will be kept on file for each financial institution with whom the County invests.

**XV. INTERNAL CONTROLS**

The Kitsap County Treasurer's Office, including the Kitsap County Investment Pool and all other funds under management by the Investment department, its written policies, procedures, and internal controls are subject to annual independent review by the office of the State Auditor. The office will make all attempts to conform to the recommendations, if any, of those reviews.

**XVI. PERFORMANCE STANDARDS**

Portfolio performance will be measured against the performance of the 6-month US Treasury bill and the State Local Government Investment Pool. Actual performance will take into account the slope and behavior of the yield curve during the period under review. It is recognized that strategies may be undertaken that might produce a decrease in the short term portfolio return in anticipation of increased returns on a longer term basis.

**XVII. REPORTING**

The investment officer will prepare a monthly written report of investment activity to be distributed to the Kitsap County Finance Committee, a weekly written report to the Kitsap County Treasurer, and such other reports as may be required by the Treasurer or Finance Committee.

**XVIII. PROCEDURES MANUAL**

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The investment officer will maintain a written procedures manual. The manual will provide sufficient guidance and information to ensure the continuity of the Kitsap County Investment Pool and related banking relationships. A glossary of common treasury terminology will be included in the manual.

### **XIV. INVESTMENT POLICY ADOPTION**

This investment policy shall be adopted by vote of the County Finance Committee, and any modifications to it, except the attached addendum which are under the approval of the County Treasurer, shall be similarly approved.

Approved by the Kitsap County Finance Committee, May 20, 1999.

Sharon Shrader, Chair  
Charlotte Garrido, Member  
Karen Flynn, Secretary