



**2011 Annual Financial Policies
Fund Balance and Reserve Report**

**General Fund, Street Operations & Special Reserve Fund
2011 Year End (PreAudit)**

Summary of Fund Balance and Reserve Policy

The purpose of this policy is to provide a target range for fund balance and specific reserves to help position the City to respond to economic fluctuations, prepare for expected liabilities, and to take advantage of opportunities.

Fund balance is the net assets of a fund. For the City of Sequim, fund balance equals cash since the city does cash basis reporting. The target Fund Balance is set at a level to follow the upper recommendation of GFOA best practices. The GFOA minimum and maximum range is 5% to 15% of baseline revenues or 1 to 2 months baseline expenses. Smaller governments need larger fund balances because there is less flexibility to make adjustments. The City has set a policy of 10% to 15% of baseline revenues. Baseline revenues and baseline expenses exclude one-time or non-recurring activities. This calculation is performed on the combined results of General Fund and Street Operations, ignoring any transfers between the two funds. In addition to the target fund balance, additional funds may be included as reserves.

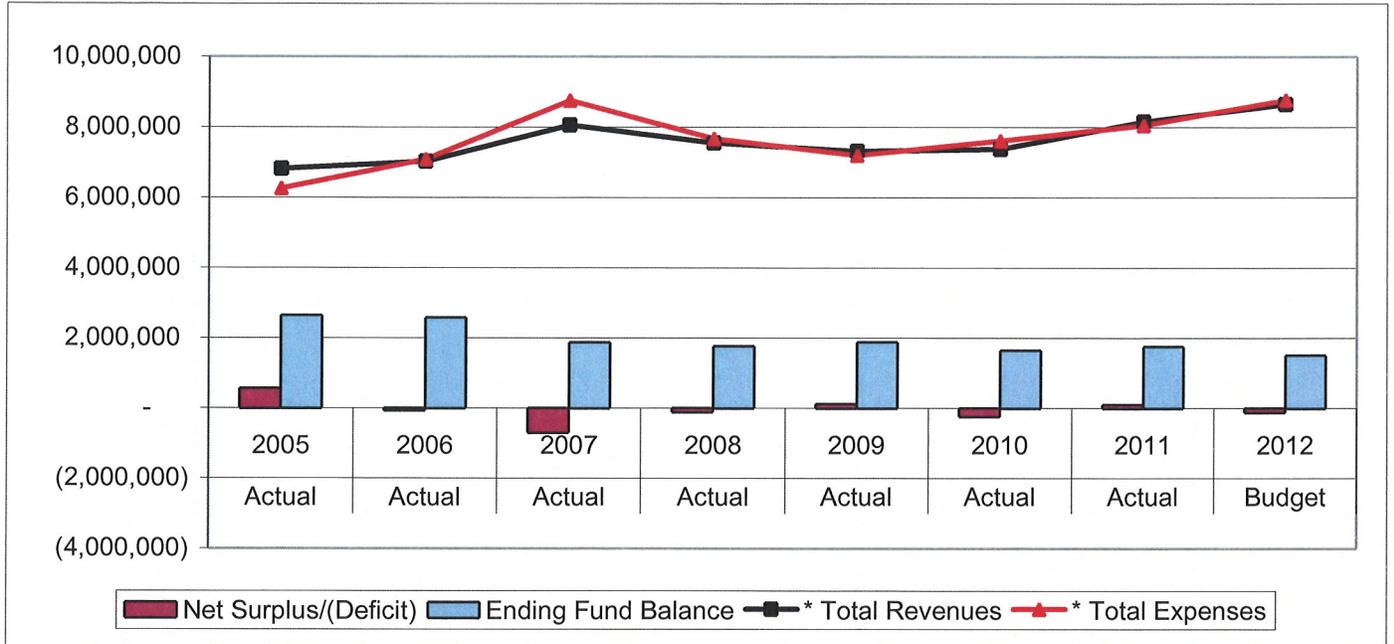
Fund Balance Results

General Fund & Street Operations	% of Min Balance	% of Max Balance
Formal Minimum Fund Balance: offsets typical fluctuations in revenues and expenses	✓	100%
Specified & One-Time Reserves: specified expense or revenue loss; non-typical expense; unexpected event or opportunity	No Min	54%
Economic Uncertainty Reserves: offsets adverse financial and economic changes; emergency or litigation	No Min	23%
Future Liabilities Reserves: mitigation of specific liability	✓	88%
Special Reserve Fund		
Equipment Fund	Not Defined	Not Defined

Fund Balance Reports

- The Revenues, Expenses, Net Surplus/(Deficit), Fund Balance graph show the historical trend since 2005.
- The Fund Balance & Reserve Fund table compares the 2011 actual and 2012 budgeted fund balance and reserves to established minimum, maximum. 2012 budget for beginning and ending fund balance was adjusted for 2011 actual ending fund balance.

City of Sequim
General Fund & Streets Operations
Revenues, Expenses, Surplus/(Deficit), Fund Balance
As of 12/31/10



	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Budget 2012
Begin Fund Balance	2,077,265	2,640,425	2,574,835	1,877,170	1,765,608	1,880,958	1,648,881	1,628,690
Gen Fund Total Rev	6,691,843	6,845,441	7,809,610	7,371,542	7,050,601	7,154,154	7,768,621	8,277,251
* Street Total Rev	131,597	188,257	249,721	188,417	272,364	233,879	398,503	383,766
* Total Revenues	6,823,441	7,033,698	8,059,331	7,559,959	7,322,965	7,388,033	8,167,123	8,661,017
* Gen Fund Total Exp	4,741,866	6,000,309	7,636,454	6,609,635	6,513,677	6,858,689	7,421,686	7,932,252
Street Total Exp	1,518,414	1,098,979	1,120,542	1,061,886	693,913	761,421	643,051	845,254
* Total Expenses	6,260,280	7,099,288	8,756,995	7,671,522	7,207,590	7,620,110	8,064,737	8,777,506
Net Surplus/(Deficit)	563,160	(65,590)	(697,665)	(111,562)	115,374	(232,077)	102,387	(116,490)
Ending Fund Balance	2,640,425	2,574,835	1,877,170	1,765,608	1,880,983	1,648,881	1,751,267	1,512,200
* Net of Transfers (Gen Fund transfer to St	1,300,000	800,000	900,000	875,000	426,000	553,504	253,000	469,000

City of Sequim
As of 12/31/11 PreAudit
General Fund & Street Operations
Fund Balance and Reserve Funds

Fund Balance & Reserve Funds	Target		2011 Actual End Balance	2012 Budget End Balance	2012 - 2011 Change	Over / (Under) Min Target
	Min	Max				
General Fund (includes Street Operations)						
Formal Minimum Fund Balance						
<u>Purpose:</u> offsets typical fluctuations in revenues and expenses						
<u>Target Level:</u> 10% to 15% of baseline revenues	\$ 866,000	\$1,299,000	\$1,299,000	\$1,045,200	\$ (253,800)	\$ 179,200
Specified & One-Time Reserves						
<u>Purpose:</u> specified expense or revenue loss; non-typical expense; unexpected event or opportunity			135,000	135,000	\$ -	\$ 135,000
<u>Target Level:</u> depends on specified item; 0% to 5% of revenues	-	433,000	100,000	100,000	\$ -	\$ 100,000
Economic Uncertainty Reserves						
<u>Purpose:</u> offsets adverse financial and economic changes; emergency or litigation						
<u>Target Level:</u> 0% to 5% of revenues	-	433,000	100,000	100,000	\$ -	\$ 100,000
Future Liabilities Reserves						
<u>Purpose:</u> mitigate specific future liabilities:						
. unemployment payout (self-insured)	58,000	71,000	67,267	71,000	3,733	\$ 13,000
. accrued compensation payout	49,000	61,000	50,000	61,000	11,000	\$ 12,000
<u>Target Level:</u> +/- 10% est. contribution; historical pattern						
Reserves for General Fund & Streets	\$ 973,000	\$2,297,000	\$1,751,267	\$1,512,200	\$ (239,067)	\$ 539,200
Reserves as a % of General Fund & Streets Revenues	11%	27%	21%	17%	-4%	
Equipment Reserve Fund	855,000	1,140,000	\$ 539,816	\$ 391,430	(148,386)	\$ (463,570)
Total Reserve Funds	\$ 1,828,000	\$3,437,000	\$2,291,084	\$1,903,630	\$ (387,454)	\$ 75,630
Total Reserves as a % of General Fund & Streets Revenues	25%	47%	28%	22%	-6.1%	

Although the Equipment Reserve Fund is not part of the General Fund and Street Operations Fund Balance, it is included here for informational purposes.
The Equipment Reserve Fund is used to replace existing equipment and buy new equipment to meet the operating needs in General Fund and Street Operations.

- ¹ Specified reserves for future PERS retirement contribution increase
² Based on 5 year average of unemployment payments
³ Based on 5% and 10% of accrued paid time off and 50% of sick leave
⁴ Minimum Equipment Reserve 75%



**2010 Annual Financial Policies
Debt Report as of 12/31/10**

Summary of Debt Management Policy

The purpose of this policy is to ensure the City maintains a sound debt position and protects the credit quality of its obligations. All borrowing must be approved by the City Council, is limited by Washington State law, and is reported in the City’s budget and annual financial report. Debt is categorized into short term, intermediate term and long term debt, and the policy identifies the appropriate use of debt depending on duration.

(Exclusions: Use of credit cards or vendor accounts are considered expenditures and are not considered short term obligations under this policy.)

Debt Results

	Debt Limit	Incurred	Available
General Obligation (GO) Debt			
General Purpose Debt	\$22.7 million	\$.7 million	\$22.0 million
Utility Purpose Debt	\$22.7 million	\$0	\$22.7 million
Open Space, Parks, Facilities Debt	\$22.7 million	\$0	\$22.7 million
Total GO Debt	\$68.1 million	\$.7 million	\$67.4 million
<i>(Included in above totals)</i>			
NonVoted Debt Capacity	\$13.6 million	\$.7 million	\$12.9 million
Voted Debt Capacity	\$54.5 million	\$0	\$54.5 million
Debt as a % of assessed value	7.5%	.08%	
Revenue Debt			
Sewer	No limit	\$8.2 million	No limit
Water	No limit	\$.4 million	No limit
Total Revenue Debt	No limit	\$8.6 million	No limit

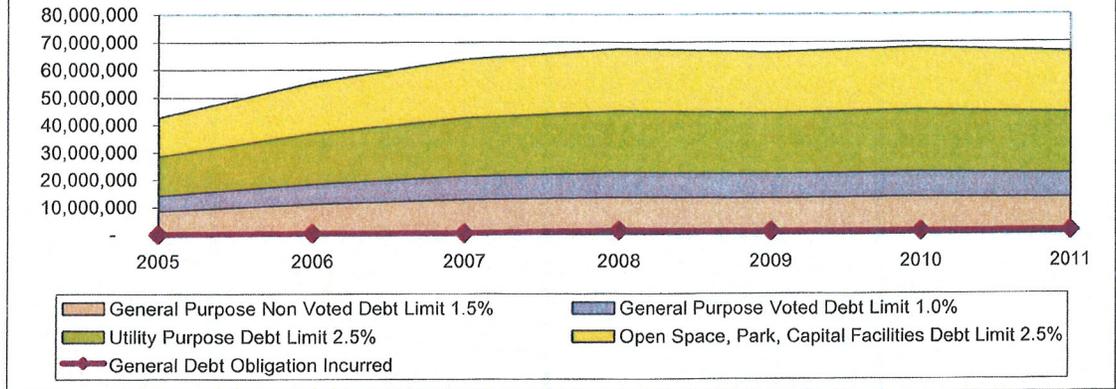
General Obligation Debt: As a general rule, debt in excess of 4.5% of assessed valuation is viewed as a cause for concern. Sequim’s current debt is very low and is primarily for Keeler Park and a small sum for police vehicles/equipment and office rental agreements.

Revenue Debt: Once a capital improvement plan has been completed, the need for additional revenue debt will be determined.

Debt Reports

- GO Debt (General Obligation Debt) – This graph shows the historical trend of General Obligation Debt relative to debt capacity. It also shows the debt as a percent of Total Assessed Property Value and identifies the maximum allowable debt. The City is well below the maximum. It also shows a six-year schedule of outstanding debt.
- Revenue Debt (Enterprise Funds) – This graph shows the historical trend of Revenue Debt relative. There is no limit on debt capacity. It also shows a six-year schedule of outstanding debt.

General Obligation Debt
As of 12/31/11
(Limited to 7.5% of Assessed Valuation
Industry standard is 4.5% of Assessed Valuation)



	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Total Assessed Property Value	569,637,795	739,682,945	851,183,997	900,145,266	882,919,973	907,241,564	884,460,474
General Purpose Debt Limit							
NonVoted Debt Limit 1.5%	8,544,567	11,095,244	12,767,760	13,502,179	13,243,800	13,608,623	13,266,907
Voted Debt Limit 1.0%	5,696,378	7,396,829	8,511,840	9,001,453	8,829,200	9,072,416	8,844,605
Debt Limit 2.5%	14,240,945	18,492,074	21,279,600	22,503,632	22,072,999	22,681,039	22,111,512
Utility Purpose Debt Limit							
Voted Debt Limit 2.5%	14,240,945	18,492,074	21,279,600	22,503,632	22,072,999	22,681,039	22,111,512
Open Space, Park & Capital Facilities Debt Limit							
Voted Debt Limit 2.5%	14,240,945	18,492,074	21,279,600	22,503,632	22,072,999	22,681,039	22,111,512
Total General Obligation Debt Capacity	42,722,835	55,476,221	63,838,800	67,510,895	66,218,998	68,043,117	66,334,536
NonVoted General Obligation Debt Incurred							
Lease/Purchase & Contract Payables	28,401	438,163	391,079	769,587	471,120	727,493	808,152
Keeler Park Note/Bond				631,610	675,050	415,789	349,193
NonVoted GO Debt Incurred	28,401	438,163	391,079	1,401,197	1,146,170	1,143,282	1,157,345
% of NonVoted Debt Capacity	0.33%	4.11%	3.16%	11.58%	9.47%	9.17%	9.56%
NonVoted Debt Capacity	8,516,166	10,657,081	12,376,681	12,100,982	12,097,630	12,465,341	12,109,562
Voted Debt Capacity	34,178,268	44,380,977	51,071,040	54,008,716	52,975,198	54,434,494	53,067,628
Available GO Debt Capacity	42,694,434	55,038,058	63,447,721	66,109,698	65,072,828	66,899,835	65,177,191
Debt as % of Assessed Value	0.00%	0.06%	0.05%	0.16%	0.13%	0.13%	0.13%

Six Year Schedule of Outstanding Debt

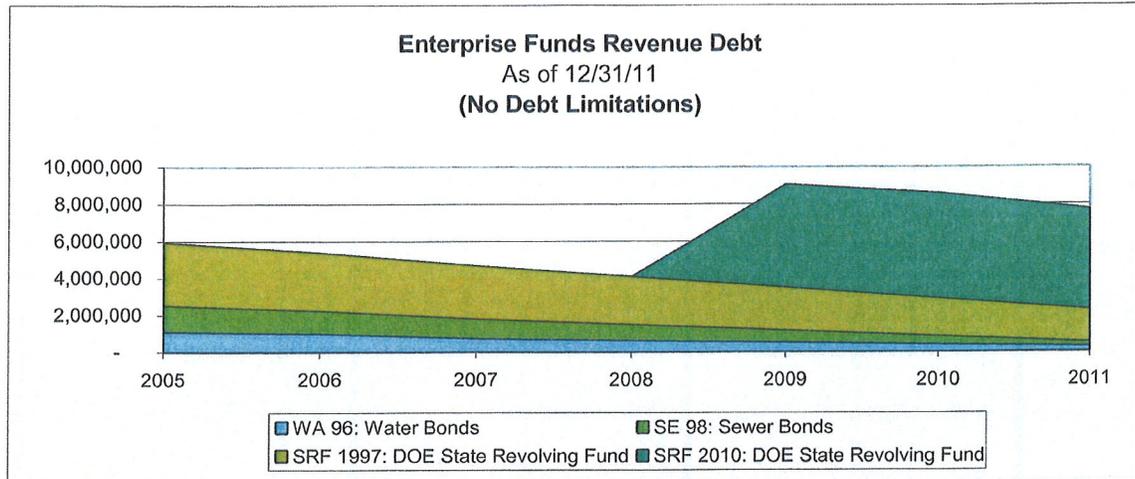
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016 ... Final Pymt
** Lease/Purchase & Contract Payables	606,181	400,598	202,719	9,223	Year 2016
Keeler Park Note/Bond	279,941	207,926	133,038	55,163	Year 2016
NonVoted GO Debt Incurred	886,121	608,524	335,757	64,386	-

* The final payment is made during the year, which results in a zero end of year balance.

** Rental rates are adjusted annually. Payable balances reflect rates in effect for 2012.

Six Year Schedule Principal and Interest Payments

	2012	2013	2014	2015	2016
Lease/Purchase & Contract Payables	202,775	205,934	197,879	193,497	9,224
Keeler Park Note/Bond	82,369	82,369	82,369	82,369	56,550
NonVoted GO Debt Incurred	285,144	288,303	280,248	275,866	65,774



	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Revenue Debt Incurred (excluded from General Purpose Debt limits)							
SRF 2010: DOE State Revolving Fund					5,540,000	5,676,034	5,442,967
SRF 1997: DOE State Revolving Fund	3,412,821	3,139,795	2,866,769	2,593,744	2,320,718	2,047,692	1,774,667
SE 98: Sewer Bonds	1,420,000	1,245,000	1,060,000	860,000	660,000	450,000	230,000
Subtotal Sewer Debt	4,832,821	4,384,795	3,926,769	3,453,744	8,520,718	8,173,726	7,447,634
WA 96: Water Bonds	1,105,000	1,005,000	745,000	635,000	520,000	400,000	270,000
Revenue Debt Incurred	5,937,821	5,389,795	4,671,769	4,088,744	9,040,718	8,573,726	7,717,634

¹ Deceased (retired the debt early) \$150k payment due Sept 2014

Six Year Schedule of Outstanding Debt

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	... Final Pymt
SRF 2010: DOE State Revolving Fund	5,199,625	4,951,124	4,697,353	4,438,201	4,173,555	3,903,297	Year 2030
SRF 1997: DOE State Revolving Fund	1,501,641	1,228,615	955,590	682,564	409,538	136,513	Year 2018
SE 98: Sewer Bonds	135,000	-	-	-	-	-	Year 2012
Subtotal Sewer Debt	6,836,266	6,179,739	5,652,943	5,120,766	4,583,094	4,039,810	
WA 96: Water Bonds	270,000	135,000	-	-	-	-	Year 2013
Revenue Debt Incurred	7,106,266	6,314,739	5,652,943	5,120,766	4,583,094	4,039,810	

* The final payment is made during the year, which results in a zero end of year balance.

Six Year Schedule of Principal & Interest Payments

	2012	2013	2014	2015	2016	2017
SRF 2010: DOE State Revolving Fund	356,869	356,869	356,869	356,869	356,869	356,869
SRF 1997: DOE State Revolving Fund	273,026	273,026	273,026	273,026	273,026	273,026
SE 98: Sewer Bonds	235,405	-	-	-	-	-
Subtotal Sewer Debt	865,300	629,895	629,895	629,895	629,895	629,895
WA 96: Water Bonds	149,310	142,155	-	-	-	-
Revenue Debt Incurred	1,014,610	772,050	629,895	629,895	629,895	629,895