

Financial Policies

The City of Colorado Springs ("the City") is a Colorado home rule municipality operating under its City Charter. The City functions under the direction of the Mayor who is appointed by the nine-member City Council. The purpose of these policies is to help frame resource allocation decisions and establish objectives, standards, and internal controls for the funds of the City. Financial policies have been adopted and used to frame major policy initiatives.

The following policies are summarized: Budget Policy, Debt Policy, Investment Policy, Reserve Policy, and the Capital Improvements Program Policy. A number of source documents provide the financial policies for the City. The State Constitution and the City Charter provide the basic legal requirements and timelines for policies; while City Council approves goals, ordinances, and resolutions that provide more specific direction that responds to the needs of the City.

Section 1 - Financial Management Overview

The City of Colorado Springs ("City") is a Colorado home rule municipality operating under its City Charter. The City functions under the direction of an elected City Mayor and a nine-member City Council.

The following financial policies adopted by the Mayor of Colorado Springs, Colorado on September 23, 2011 establish the framework for the City's overall fiscal planning and management. It is the intent of the City that these policies to demonstrate to residents, the credit rating industry, municipal bond investors, auditors, and the State that the City is committed to sound financial management and fiscal integrity. The goals of the City's financial policies are:

- I. To support sustainable municipal services.
- II. To have a capital improvement program that adequately maintains and enhances the public's assets over their useful life.
- III. To provide cost effective services to citizens and visitors.
- IV. To provide financial and other service information to enable citizens to assess the costs and results of City Services.
- V. To follow prudent and professional financial management practices to assure residents of the City of Colorado Springs and the financial community that our City government is well managed and in sound fiscal condition.

This document is intended to be an overview of various financial policies and is not meant to be a detailed procedures source or detailed department specific source. If the material in this document does not answer a specific question, please contact the Finance Department.

Detailed City department policies provide more specific direction on how to achieve identified goals and are the basis for consistent actions that move the community and organization toward sound financial management decisions.

Section 2 - General Financial Policy

I. Fund Accounting

A fund is a separate, self-balancing set of accounts used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions or limitations.

The separation of the City's activities into funds allows the City to maintain the appropriate (required) controls over expenditures for each activity and to report on specific activities to interested citizens.

Fund Types: All funds are classified into six (6) fund types. These fund types, and the purpose of each are:

- a. General Fund - To account for the administrative, police and fire protection, parks, recreation, community development, infrastructure and technology functions of the City. Principal sources of revenue consists of property taxes, franchise and occupancy taxes, sales and use taxes, licenses and permits, grants, charges for services, intergovernmental revenue, interest earnings, and operating transfers from other funds. Major expenditures are for personnel costs, materials and supplies, purchased services, capital outlay and transfers to other funds.
- b. Special Revenue Funds - To account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. One or more specific restricted or committed revenues should comprise a substantial portion of the fund's resources but may also include other restricted, committed, and assigned resources.
- c. Capital Projects Fund - To account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Outflows financed by proprietary funds and assets held in trust are excluded.
- d. Debt Service Fund - To account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- e. Enterprise Funds (also called Business or Proprietary Funds) - To account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user determination of revenues earned, expenses incurred, and/or net income as appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- f. Fiduciary Funds - To account for resources received and held by the City in a fiduciary capacity. Disbursements from these funds are made in accordance with the trust or other agreements or conditions of the trust for the particular source of funds.

II. Accounting and Auditing Policies

The City maintains a system for financial monitoring, control and reporting for all operations, funds and agencies in order to provide effective means to ensure that overall City goals and objectives are met and to instill confidence in the City's partners and investors that the City is well-managed and fiscally sound.

The City maintains its accounting records and reports on its financial condition and results of operations in accordance with State and Federal law and regulations and generally accepted

accounting principles in the United States (GAAP), which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). Annually, an independent firm of certified public accountants performs a financial and compliance audit of the City's financial statements. Their opinions are included in the City's Comprehensive Annual Financial Report (CAFR) and the Report on Compliance with the Single Audit Act of 1984.

III. Basis of Accounting and Reporting Focus

The term "basis of accounting" refers to when revenues, expenses, expenditures - and the related assets and liabilities - are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made. The following are the basis of accounting available for use by the City:

- a. Cash Basis - Transactions are recognized only when cash is received or disbursed.
- b. Accrual Basis - Transactions are recognized when the economic event occurs, regardless of whether or not cash is received or paid. Proprietary funds, which encompass the enterprise funds, use the accrual basis of accounting. These funds have an income measurement/capital maintenance focus. The accrual basis of accounting is used by private enterprises as well.
- c. Modified Accrual Basis - Expenditure transactions are recognized when incurred. Revenues are recognized when they are both measurable and available to finance the expenditures of the current period. Governmental funds, including general, special revenue, debt service, and capital projects, use the modified accrual basis of accounting. For a revenue to be recognized in a governmental fund, it must be "measurable" (the amount must be known or be reasonably estimated), and it must be "available" to finance the expenditures of the same fiscal period for which the revenue is recorded. "Available," in this case, means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. For purposes of consistency, that time-frame shall be sixty (60) days which was set for purposes of Property tax revenues.

Reporting Focus (Budget vs. GAAP) - This concept is used to refer to the way transactions are recorded and reported for compliance with Colorado Budget Law as opposed to financial statement presentation in conformance with GAAP.

- a. Budget Basis - The City's monthly statement of revenues and expenditures are reported during the fiscal year on what is informally called a "budget basis." The City's transactions are recorded throughout the year in accordance with the financial statement requirements as set forth within the Colorado Revised Statutes. By recording the transactions in general compliance with this law, the revenues and expenditures can be more easily monitored on a monthly basis to ensure compliance with the legal requirements as set forth within the Colorado Revised Statutes.
- b. GAAP - At the end of the fiscal year, adjustments are made to present the financial information in a format that is comparable to that used by other local government units around the country. The standards for this reporting are referred to as "generally accepted accounting principles" (or GAAP basis). The adjustments to convert the City's financial records from "budget basis" to "GAAP basis" are made to ensure that the City's financial statements are fairly and consistently presented in conformance with GAAP.

IV. Internal Control Structure

The City maintains an internal control structure consisting of the following three elements:

- a. Control Environment – an overall attitude and awareness of actions as they influence the City.
- b. Accounting System – an effective accounting system which results in identification and recording of all valid transactions, description on a timely basis of the type of transaction in sufficient detail to permit proper classification of the transaction for reporting purposes, recording of the transaction in the correct time period and proper presentation of all transactions and related disclosures in the financial statements.
- c. Control Procedures – proper authorization of transactions and activities, adequate segregation of duties, adequate documentation and records, adequate safeguards regarding access and use of assets and records, and independent checks on performance.

Funds are categorized by standard GAAP functional classifications; and the development of new funds, departments, programs and accounts shall be approved by the Finance Department.

Each fund in the City's budget will have an introductory statement of purpose which shall consist of the intent of the fund; sources of revenue and restricted revenues, if any; required reserves and justification for such reserves.

V. Financial Monitoring

The Budget Manager is charged with the primary responsibility for monitoring the fiscal implementation of the approved budget. In addition, the Budget Office and Finance Department will work closely with other departments to apprise them of their financial status and of any potential issues that may affect their budgets. The Budget Office and the Finance Department may review fiscal issues affecting any part of the City organization. This activity supports the monitoring role and focuses on the protection of City assets and the legal, efficient, and effective use of City resources. Together the Budget Manager and the Finance Director will provide City Council with regular reports on the City's finances including a financial report containing budget versus actual revenue and expense information. These reports fulfill a requirement in City Charter §3-140.

Individual departments are responsible for monitoring and managing their resources to ensure that the legal and administrative appropriation to the department is not overspent and that all expenditures and uses of City resources are in conformity with City, State, and federal ordinances, statutes, policies, and regulations.

- a. Legal Appropriation - Each department is responsible for ensuring that expenditures do not exceed the legal appropriation level for their department within each fund, operating and capital expenditures combined.
- b. Revenues – Each department is responsible for monitoring revenues that are collected as a result of programs administered. If a significant change in the estimate for the current or future fiscal year's results, the department must contact the Budget Office to advise of the change.

VI. Audit

The Charter and Code of the City of Colorado Springs, State of Colorado statutes, and federal laws and regulations will be followed wherever they apply to the financial activities of the City. The source of historical financial information about the City will be the central accounting system as operated and maintained by the Finance Department. The source of all current and future budget information, including spending plans, revenues, and expenditures, is the annual budget document.

- a. Internal Audit - The City of Colorado Springs Office of the City Auditor evaluate the adequacy of financial controls, systems, records and organizational operations. They provide Council, management and employees objective analysis, appraisals and recommendations for improving systems and activities.
- b. External Audit - In accordance with City Charter §3-160, an annual external audit will be performed by an independent public accounting firm with the subsequent issuance of a financial report and opinion.
- c. Single Audit - Per OMB Circular A-133, all non-federal entities that expend \$500,000 or more in a year on federal awards, either as the grantee or the sub-grantee, shall have a single or program-specific audit conducted for that year in accordance with the provisions of the circular guidance. The single audit encompasses both the entity's financial statements and the federal awards received by the entity; whereas a program-specific audit will audit one federal program and can only be used when the grantee receives grant awards only from one federal program. The city contracts with an external firm to conduct a single audit on an annual basis. The awarding agency may also specify additional audit requirements in the grant award letter or grant guidance.

Section 3 - Budget Policy

I. Overview

The annual budget is an operational plan which provides the Mayor and City Council with the financial information necessary to guide resource allocation to accomplish the goals and objectives of the City. The budget details how municipal services will be provided. The budget, along with the annual appropriation ordinance and any supplemental appropriations, provide the basis for the control of expenditures and set the financial guidelines for the City. The basic legal requirements and budget process are defined by the State Constitution and City Charter.

II. Budget Philosophy

The City is committed to developing a sound financial plan for the operations and capital improvements that meet the City's Strategic Plan goals. The City provides a wide variety of services to residents and visitors. It is the responsibility of the Mayor and City Council to adopt a budget and manage the available resources to best meet the service needs for the overall good of the community. To achieve this, the City:

- a. Utilizes conservative growth and revenue forecasts;
- b. Prepares plans for operations and capital improvements;
- c. Allows staff to manage the operating and capital budgets, with City Council approving the allocations for both;
- d. Adopts financial policies;
- d. Establishes budgets for all funds based on adopted policies;
- e. Appropriates the budget in accordance with the City Charter and State Constitution; and
- f. Develops a budget that minimizes adverse impacts to the community.

III. Budget Preparation Process

The City identifies important community outcomes and develops a financial and service delivery plan to achieve those outcomes. City Council allocates funding based on current priorities and results, and does not simply increase the prior year's budget. Each year, the Budget Office prepares a forecast for the following year's budget. In May, the Budget Office prepares a budget manual with the Mayor's budget objectives and guidelines for developing the following year's budget for the departments use. In June and July, departments develop revenue and expense projections for the following year and submit them to the Budget Office. In July, departments present their budget to the Budget Review Committee for review and analysis. Not later than the first Monday in October, the Mayor submits a preliminary budget to City Council for review. In October, the citizens of Colorado Springs provide their feedback on the proposed budget and City Council holds work sessions on each department's proposed budget. In November, City Council may amend the Mayor's proposed budget. In December, City Council approves the budget and appropriations ordinances. The Mayor may then veto specific lines of the budget. The City Council can override the Mayor's vetoes with six votes. By December 31st City Council must adopt the following year's budget.

IV. State Statutory Requirements

The State Statute indicates that no later than October 15 of each year, the budget shall be submitted to the governing body. As a result, the Mayor presents the recommended budget for the ensuing fiscal year to City Council no later than October 15th of each year.

V. Colorado Springs City Charter Requirements

a. Budget Fiscal Year - Colorado Springs City Charter§7-10.

The fiscal year of the City shall commence on the first day of January and end on the last day of December of each year." (1909; 1977)

b. Mayor's Powers and Duties - Colorado Springs City Charter§3-70 (e).

Every ordinance finally passed by the Council shall be presented to the Mayor within forty-eight hours thereafter for final adoption. If the Mayor approves such ordinance, he or she shall finally adopt it by signing it within five days after receiving it. If the Mayor disapproves, the ordinance shall be returned to the Council within five days with the Mayor's objections in writing. If then six (6) of the members vote to pass the same over the Mayor's veto, it shall become a finally adopted ordinance, notwithstanding the objections of the Mayor. If the Mayor does not return the ordinance with written objections within the time specified, it shall become finally adopted as if the Mayor had approved it. (2010)

(1) In any ordinance appropriating funds, the Mayor may disapprove specific line items without disapproving the entire ordinance. After disapproval of specific line items, the ordinance shall be returned to Council to complete the over-ride process as outlined above as to each line item vetoed. (2010)

(2) Notwithstanding the foregoing subsections, the Mayor shall not have power to disapprove by veto the following listed types of ordinances, this limitation applying only to the following specifically identified ordinances: an ordinance accomplishing any quasi-judicial act; an ordinance approving bonds to be issued by any City enterprise; an ordinance pertaining to Article VI, "Utilities," of this Charter; an ordinance submitting a Charter amendment to a vote of the qualified electors; or an ordinance proposing a Charter convention. (2010)

c. Specific Powers and Duties of the Mayor – Colorado Springs City Charter §4-40 (i).

(i) On or before the first Monday in October in each year, the Mayor shall furnish to the Council estimates in writing of the probable expenses to be incurred in the several departments of the City for the ensuing fiscal year, specifying in detail probable expenditures, including a statement of the salaries of all administrative officers and employees, and certify the amount of money to be raised by taxation during the ensuing fiscal year to make payment of interest, sinking fund, and principal of bonded indebtedness and also the estimated amount of revenue from all sources other than tax levy. At the same time or on such later date in each year as shall be fixed by the Council, the Mayor shall prepare and present to the Council the annual budget for the ensuing fiscal year, which shall include interest and sinking fund on the bonded debt. The budget so prepared shall be in such detail as to the aggregate sum and the items thereof allowed to each department, office, board, or commission as the Mayor may deem advisable except such as are fixed by law. (2010)

d. City Council Duties - Strategic Plan - Colorado Springs City Charter §3-10(b).

To provide for the future of the City, Council shall maintain a strategic plan that prioritizes goals for the City and establishes measurable outcomes. The strategic plan shall include the Comprehensive Plan and a five-year capital improvements plan for municipal needs. The plan process shall consider public input. City Council shall provide the plan and goals to the City Manager for development of the municipal administrative budget. (Refer to the Capital Improvements Program Policy)

e. Budget Process - Colorado Springs City Charter §7-30.

The City Council shall, upon receipt of the budget, adopt the budget with or without amendment. In amending the budget, the City Council may add or increase programs or amounts and may delete or decrease any programs or amounts, except amounts required by law or for debt service on general obligation bonds or for estimated cash deficit provided, however, that no amendment to the budget shall increase the authorized expenditures to an amount greater than the total of estimated income. (1909; 1977)

In adopting the budget, the City Council shall also estimate and declare the amount of money necessary to be raised by tax levy. The estimate shall take into account the amounts available from other sources to meet the expenses of the City for the ensuing fiscal year. The budget and estimate as finally adopted shall be signed by the Mayor and City Clerk and filed with the Chief Financial Officer. (1909; 1977) (Ed. note: Formerly section 41)

The budget shall include all stipends and other expenses of City Council and the salary of the Mayor and the budget shall declare the amount of money necessary to fund the budget. Subject to any pre-existing bond covenants, the City Council's budget shall be apportioned among the City's general fund, its Utilities funds and its health system fund as a reflection of City Council's direct responsibilities for all municipal and Utilities matters as well as City Council's general supervision and control of health system matters based upon such reasonable allocation methodology as City Council may determine. (2005; 2010)

A public hearing is held on the fourth Thursday in October of each fiscal year to allow public comment upon the proposed budget.

f. Appropriations - Colorado Springs City Charter Section 7-50.

Upon the basis of the budget as adopted and filed, the several sums shall forthwith be appropriated by ordinance to the several purposes therein named for the ensuing fiscal year. Said ordinance shall be adopted not later than the thirty-first day of December in each

year, and shall be entitled "The Annual Appropriation Ordinance." (1909; 1977) (Ed. note: Formerly Section 43)

VI. Colorado Springs City Code Requirements

City Code § 1.5 Financial Management Procedures details required financial management procedures. This section defines appropriation, budget, department, and special fund. It outlines procedures for the creation of accounts, amendments to the appropriation and tax levy ordinance, transfers of funds within departments or special funds, transfers of funds between departments or special funds, transfer of funds from contingency account, special projects abandonment or partial abandonment, special projects transfer of funds, special projects non-lapse of appropriations, and filing of inventories.

All appropriations not spent or encumbered at the end of the fiscal year lapse into the fund balance applicable to the specific fund, except for:

- a. Capital Projects – appropriations for capital projects, which do not lapse until the project is completed and/or closed out;
- b. Grant Funds – appropriations for federal or State grants which do not lapse until the expiration of the grant.

The annual operating budget will normally provide for adequate funding of City retirement systems, adequate maintenance and/or replacement of capital plant and equipment, and adequate maintenance of an insurance fund, providing for self-insurance or using other acceptable insurance methods. If adequate funding cannot be budgeted, these differences shall be disclosed.

The budget includes appropriations for debt service payments and reserve requirements for all outstanding debt and for debt anticipated to be issued within the ensuing budget year.

Section 4 - Debt Policy

I. Overview

The City recognizes the primary purpose of facilities is to support provision of services to its residents. The City must balance debt financing and "pay-as-you-go" methods to meet the capital needs of the community. The City realizes failure to meet the demands of growth may inhibit its continued economic viability but also realizes too much debt has detrimental effects. Historically, the City's total bonded indebtedness as a percentage of total general obligation debt limits has been minimal. As of 2011, the City has no general obligation debt.

The City uses lease purchase financing for several purposes which include the acquisition of real property and the replacement of equipment and vehicles. Lease purchases decrease the impact of the cost to a department by spreading the costs over several years, and are subject to annual appropriation by City Council.

II. Colorado Springs City Charter Requirements Debt Limitations – Colorado Springs City Charter Section 7-80.

- a. No bonds or other evidences of indebtedness, payable in whole or in part from the proceeds of ad valorem property taxes or to which the full faith and credit of the City are pledged in writing or otherwise shall be issued, except in pursuance of an ordinance authorizing the same, and unless the question of the issuance of the bonds shall at any special or general municipal election be submitted to a vote of the qualified electors of the

City and approved by a majority of those voting on the question. However, City Council pursuant to ordinance and without election may:

- Issue local improvement district bonds;
- Borrow money or issue bonds for the purpose of acquiring, constructing, extending or improving water, electric, gas, sewer, or other public utilities or income-producing projects provided, further, that said borrowing shall be repaid and said bonds shall be made payable solely out of the net revenue derived from the operation of the utility, utilities, or other income-producing projects, or any or all thereof. Net revenue shall mean gross revenue less all operation and maintenance expenses of the project for which the money has been borrowed or bonds issued.

b. The City shall not become indebted for any purpose or in any manner to an amount which, including existing indebtedness, shall exceed 10% of the assessed valuation of the taxable property within the City as shown by the last preceding assessment for City purposes provided; however, that in determining the amount of indebtedness, there shall not be included within the computation of indebtedness local improvement district bonds, revenue bonds, or general obligation bonds or other evidences of indebtedness issued for the acquisition, construction, extension, or improvement of water facilities or supplies, or both. (1909; 1922; 1951; 1965; 1977) (Ed. note: Formerly section 47)

III. Security and Exchange Commission (SEC) Rule 15c2-12 "Municipal Securities Disclosure" Requirements

As a means reasonably designed to prevent fraudulent, deceptive, or manipulative acts or practices, it shall be unlawful for any participating underwriter (broker, dealer, or municipal securities dealer) to act as an underwriter in a primary offering of municipal securities with an aggregate principal amount of \$1 million or more unless the participating underwriter complies with SEC Rule 15c2-12 requirements or is exempted from the provisions of the Rule.

The City is committed to providing timely and consistent dissemination of financial information with SEC regulatory requirements. It is imperative that disclosure be accomplished in a timely fashion in accordance SEC required SEC Rule 15c2-12 compliance and the City's Disclosure Dissemination Agent Agreement (DDAA).

This disclosure policy confirms the City's commitment to fair disclosure. Its goal is to develop and maintain guidelines for presenting related financial reports and events to interested third parties, financial institutions and the general public.

This policy covers all City employees and elected officials of The City of Colorado Springs. It covers disclosure documents filed with the SEC, statements made in the City's CAFR, and any unaudited interim reports.

IV. Establishment of a Disclosure Working Group

Through authority of the Finance Department of the City, the City has authorized the establishment of a Disclosure Working Group (DWG) consisting of the Finance Director, Mayor and City Attorney. As a Group, the DWG will decide when material developments justify release and meet as conditions dictate.

The role of the DWG is to systematically review filings, reports and other public statements to determine whether any updating or correcting of information is appropriate. The DWG will review and update, if necessary, the disclosure policy on an annual basis. The DWG will react quickly to negative developments and events that affect the City and notify SEC, when appropriate.

The City's primary spokesperson related to Audited Financial Statements, other financial reports, and events is the Finance Director. The City Mayor and City Attorney are designated alternative spokespersons and will be fully apprised of City's financial developments. Others within the City or its agencies may, from time to time, be designated by the Finance Director as spokespersons on behalf of the City and respond to specific inquiries. It is essential that the DWG be fully apprised of all material developments of the City in order to evaluate, discuss those events and determine the appropriateness and timing for release.

The City or its designated agent must provide continuing disclosure documents and related information to the Municipal Securities Rulemaking Board's EMMA (a regulator) website @ <http://dataport.emma.msrb.org>.

Section 5 – Cash Management Policy

I. Scope

The City recognizes that effective cash management is an integral component of sound financial management. Therefore it is the policy of the City that funds deemed idle, based on projected cash flow shall be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operation of the City. (Refer to Section 6 – Investment Policy)

II. Cash Deposits and Receipts

- a. Departments collecting cash receipts, whether in cash or other forms of payment, must turn in such receipts to the Finance Department on a daily basis together with records required to verify accuracy of such collections.
- b. Departments authorized to make deposits should promptly submit bank deposit receipts and daily cash reports to the Finance Department to verify the accuracy of collections.
- c. The Finance Department will set forth general cash handling procedures to be followed for all City departments. Departments may have more restrictive policies but will not have less restrictive policies as set forth from the Finance Department.

Section 6 - Investments

I. Investment Policy – Operating Account

Existing Colorado State Statutes provide home rule municipalities with legal authority to promulgate and implement local standards for cash and investment management operations. City Code 1.6.102 states that we will invest in securities in a manner authorized by Colorado statutes and as directed by City Council. The purpose of the City's Investment Policy is to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City of Colorado Springs.

The Investment Policy was adopted by the City Council of the City of Colorado Springs by resolution on September 28, 1993. It was revised on November 8, 1994, February 27, 1996; October 8, 1996; October 26, 1999; February 12, 2002; March 9, 2004; May 24, 2005; July 11, 2006; April 24, 2007; June 24, 2008; May 26, 2009 and May 25, 2010. It replaces any previous investment guidelines formulated by members of City staff. The Investment Policy as adopted by City Council is attached as Appendix A.

II. Investment Guidelines – Reserve Account

The City has maintained separate Investment Guidelines to apply to the funds comprising the Reserve Account. The Reserve Account Investment Guidelines have been approved by Finance Director. All investments for this portfolio shall be made in accordance with Colorado State Statutes.

With the exception of authorized securities, maturity limits, liquidity requirements and a discretionary management status, the provisions of the Investment Policy of the City of Colorado Springs shall apply to the Reserve Account as well. Authorized investment vehicles, eligible transactions and maturity limits for the Reserve Account are defined below. There are no liquidity requirements for this portfolio at this time. The current Investment Guidelines for the Reserve Account are attached as Appendix B.

III. Cemetery Endowment Fund Investment Policy

City Code §1.6.102(B):

The City Treasurer may establish other trusts or accounts to invest assets of the cemetery endowment fund, assets of the C.D. Smith fund and other nontax funds in investments other than those listed in Colorado statutes. These funds shall be subject to the standards of the City investment policy as approved by City Council and investment guidelines established by the City Treasurer for each trust fund or account.

The Cemetery Endowment Investment Policy was last adopted by the City Council of the City of Colorado Springs by resolution No. 166-10 on September 28, 2010. The purpose of the Cemetery Endowment Fund is to provide perpetual maintenance of the cemeteries under the jurisdiction of the City. The type of investment assets held by the Fund shall vary from time to time in response to changes in the economy and prospects for achieving the Endowment's objectives commensurate with prudent risk.

IV. Investment Advisory Committee

City Council created the Investment Advisory Committee for the City of Colorado Springs by Resolution No. 157-91 on September 24, 0991. The Investment Advisory Committee shall advise City Staff and as deemed necessary make recommendations to the City Council as to the investment policies and procedures of the City. The citizen members shall be selected for their skills in investment and finance. However, this Committee is not responsible for advice for investment of the Utilities Fund or Memorial Hospital as those operations have existing Boards or Commissions for this purpose.

Section 7 – Fund Balance Policy

I. Overview

The City's Fund Balance is the accumulated difference between assets and liabilities within governmental funds. A sufficient fund balance allows the City to meet its contractual obligations, provide funds for new and existing programs established by City Council, mitigate negative revenue implications of federal or state budget actions, mitigate economic downturns, fund disaster or emergency costs, provide funds for cash flow timing discrepancies and fund non-recurring expenses identified as necessary by City Council.

II. Governmental Fund Balance Type Definitions

The Governmental Accounting Standards Board (GASB) issued Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions" effective for periods after June 15,

2010. The objective of this Statement was to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes limitations on the purposes for which Fund Balance can be used.

- a. Non-spendable Fund Balance – Some assets reported in governmental funds may be inherently non-spendable from the vantage point of the current period.
 - Assets that will never convert to cash such as; prepaid items or inventories,
 - Assets that will not convert to cash soon enough to affect the current period such as; non-financial assets held for resale,
 - Resources that must be maintained intact pursuant to legal or contractual requirements such as; capital of a revolving loan fund
- b. Restricted Fund Balance – This represents the portion of fund balance that is subject to externally enforceable legal restrictions. Such restrictions are typically imposed by parties altogether outside the City such as creditors, grantors, contributors or other governments. Restrictions can also arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose.
- c. Committed Fund Balance – This represents the portion of fund balance whose use is constrained by limitations that the City imposes on itself by City Council (highest decision making level) and remains binding unless removed in the same manner. The City does not use committed funds in its normal course of business.
 - Requires action by City Council to commit fund balance
 - Formal City Council action is necessary to impose, remove or modify a constraint reflected in the committed fund balance
- d. Assigned Fund Balance – This describes the portion of fund balance that reflects the City's intended use of resources. This authority rests with Mayor and is delegated to staff through the use of encumbrances.

III. General Fund Unrestricted Fund Balance

A top priority goal of the Mayor is to improve the long-term fiscal health of the City. Revenue projections are conservative and authorized expenditures are closely monitored. In stable economic times, the combination of these two strategies leads to revenue collections higher than actual expenditures.

Net revenue (actual revenue collections less actual expenditures) is available to first fund the Taxpayer's Bill of Rights (TABOR) reserve for emergencies required under Article X, §20 of the Colorado State Constitution and then to the designated reserves. Year-end balances in the undesignated reserves may be used as a funding source in the next budget year.

The City's policy is to accumulate adequate reserves to protect the City during economic downturns or large scale emergencies. The City also maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies.

The Government Finance Officers Association (GFOA) is a professional association of state and local finance officers in the US and Canada whose members are dedicated to the sound management of government financial resources. GFOA recommends that "governments

establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.”¹

The GFOA recommended, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular General Fund operating expenditures.

The City’s goal target range for General Fund Reserve – Unrestricted Fund Balance is 16.67 % to 25% of the following year’s expenditure budget. The target for the unrestricted General Fund balance would exclude the TABOR emergency reserves but include other categories of fund balance that are committed, assigned or unassigned.

The City’s Unrestricted Fund Balance as of December 31, 2010 was 13.4% of the 2011 expenditure budget. The City’s goal is to reach 16.7% no later than fiscal year 2012 and 18.7% no later than 2014 according to the following schedule. It is the City’s goal to increase the fund balance to 25%, however, we realize that will take time barring an unexpected robust increase in sales and use tax revenue.

| | |
|-------|---------------------|
| 15.0% | By December 31,2011 |
| 16.7% | By December 31,2012 |
| 17.7% | By December 31,2013 |
| 18.7% | By December 31,2014 |

IV. The Taxpayer’s Bill of Rights City Charter§7-90(e) – Emergency Reserves

For use in declared emergencies only, the City shall reserve in 1991 one percent (1%) or more, in 1992 two percent (2%) or more, and in all later years three percent (3%) or more of fiscal year spending. An unused reserve shall apply to the next year’s reserve. (1991) “Emergency” excludes economic conditions, revenue shortfalls, or City salary or fringe benefit increases.

V. Other Funds

- a. Enterprise and some Special Revenue Funds - These reserves provide for unexpected revenue losses or unanticipated expenditures during the year. A portion of these reserves may be appropriated as part of the annual budget and may be utilized at the end of the fiscal year if necessary.
- b. Internal Services Funds – Internal Services Funds are expressly designed to function on a cost-reimbursement basis and should not accumulate a significant reserve. A small reserve is appropriate to allow for differences in timing of revenues and expenditures.
- c. Self Insured Fund Reserves- As required by the State of Colorado Self Insurer’s Reserve Trust Agreement, the City maintains a Fund Balance reserve for Liability and Workers Compensation.

VI. Debt Reserves

Debt reserves are established to protect bond holders from payment defaults. Adequate debt reserves are essential in maintaining good bond ratings and the marketability of bonds. The amount of debt reserves are established by bond ordinance for each fund in association with each bond issuance. At times, it may be desirable to use bond insurance rather than debt reserves. This is usually based on the recommendation from our Financial Advisor.

¹ “Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAFR), Government Finance Officers Association

VII. Use of Fund Balances

Available fund balances shall not be used for ongoing operating expenditures.

Section 8 - Capital Improvement Program Policy

I. Overview

The City has a significant investment in its streets, facilities, parks, natural areas and other capital improvements. In past years, the City Council and the residents of Colorado Springs through their actions have demonstrated a firm commitment to and investment in City capital projects.

II. City Charter Requirement § 4-40(b)(1), - Five Year Capital Improvement Program (CIP) Plan

The strategic plan shall include the Comprehensive Plan and a five year capital improvements plan for municipal needs.

III. Funding Sources and Requirements

- a. All City capital improvements will be constructed and expenditures incurred for the purpose as approved by City Council, with funds rolled over from year to year until a project is deemed complete.
- b. The City will use a variety of different sources to fund capital projects, with an emphasis on the "pay-as-you-go" philosophy.
- c. Funding for operating and maintenance costs for approved capital projects must be identified at the time projects are approved.

IV. Transfer of Funds

Funds cannot be transferred from one active CIP project to another without City Council's approval.

Section 9 - Revenue Policy

The City shall strive to maintain a balanced and diversified revenue structure to protect the City from fluctuations in any one source due to changes in local economic conditions which adversely impact that source.

Revenue estimates will be conservative and based upon trend analysis, economic conditions and other factors. Estimates will be established by the Budget Office and reviewed by the Mayor, Chief of Staff, and Budget Strategy Team.

Non-recurring revenues and other financing sources will not be used to finance ongoing operations with the exception of the use of approved grants or the use of Fund Balance in accordance with fund balance policies.

Federal aid, state aid, gifts, and grants will be accepted only after an assessment is made of potential cost implications.

- a. Grants will be spent for the purposes intended and will not be relied on for basic general fund services.
- b. The City will review grants for operating programs on an individual basis to determine suitability of accepting the grants from a sustainable long-term financial perspective.

- c. The City will vigorously pursue grants for capital projects that fit long-range community improvement goals.
- d. All potential grants will be carefully examined for matching requirements; both dollar and level-of-effort matches.

The City will review its fees and other charges for services annually to ensure that revenues are meeting intended program goals and are keeping pace with inflation, other cost increases and any applicable competitive rate. The City will evaluate cost recovery and align fees with cost recovery goals. Enterprise and Internal Service operations will be self-supporting.

Section 10 - Expenditure Policy

The City will pursue goals of efficiency and effectiveness by balancing short-term and long-term community needs.

Current operating expenditures will be funded with current operating revenues, approved grants, or the use of Fund Balance in accordance with fund balance policies. The Budget Office and Finance Department will monitor revenues and expenditures during the year to provide an opportunity for actions to be taken to bring expenditures in line with revenues received.

The City will undertake periodic reviews of City programs for both efficiency and effectiveness. Privatization and contracting with other governmental agencies will be evaluated as alternatives to services delivery. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope and eliminated.

Section 11 - Grants Policy

Grants will follow all regulations included in the grant contract. City Departments and staff that occupy positions of responsibility with respect to grant activity have specific roles and responsibilities that they shall perform and uphold both ethically and in the best interests of the City. The City Council has sole responsibility for approving grant awards, through Resolution or Ordinance.

I. Conflict of Interest

No employee or official of the City shall have any interest, financial or otherwise, direct or indirect, or have any arrangement concerning prospective employment that will, or may be reasonably expected to, bias the design, conduct, or reporting of a grant funded project on which he or she is working.

It shall be the responsibility of the Grant Administrator for each particular grant-funded project to ensure that in the use of project funds, officials or employees of the City and nongovernmental recipients or sub-recipients shall avoid any action that might result in, or create the appearance of:

- a. Using his or her official position for private gain
- b. Giving preferential treatment to any person or organization
- c. Losing complete independence or impartiality
- d. Making an official decision outside official channels
- e. Affecting adversely public confidence in the grant funded program in particular and the City in general

II. Accounting and Reporting

- a. The accounting system will separate revenues and expenditures by funding source for all grants. The accounting system will break down revenues and expenditures for each individual grant via the project system and supporting documentation will be maintained in the financial system for all grant expenditures, as is required of all expenditures.
- b. The accounting system has a project system that tracks all revenues and expenditures by the specific grant or project by line item or by broad category as may be included in a grant application budget. Grant Administrators will reconcile on a regular basis to ensure all revenues and expenditures are being appropriately coded to the correct grant. Project system reports can be run to accommodate different grant time periods that may differ from calendar year reporting.
- c. Federal grant funds will not be commingled with funds from other Federal grants or other local match money. When applicable, any matching funds for a grant will be tracked by the department who is responsible for the grant and will only include items that directly correlate to an approved activity identified in the grant proposal.
- d. Capital assets are tracked through the fixed asset system and, if a grant has purchased a capital asset, this will be noted in the fixed asset system.
- e. Only allowable costs will be allocated to a grant.

- f. Grants will only be budgeted when a grant award letter or statement of grant award has been received. If this is prior to adoption of the budget, it will be included in that year's budget. If it is mid-year, a budget amendment will be requested by the department and approved by City Council resolution or ordinance.
- g. City departments are responsible for all aspects of the grant process including planning for grant acquisition, preparation and submitting grant proposals, preparing Resolution requests to accept funds, developing grant implementation plans, managing grant programs, preparing and submitting reports to grantors, and properly closing out grant projects. Department staff and Finance staff will maintain a close working relationship with respect to any grant activity to ensure a clear understanding of the project status.

III. Documentation

All grant expenses must comply with the terms set forth in the grant application, grant award letter, city procurement policies and the guidelines in the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribe Governments. The March 2006 Supplemental to OMB Circular A-133 also provides compliance information based on the Federal granting agency. City procurement policies are located on the City's intranet, under City Contracts.

- a. Documentation for all expenditures must be retained by the department for audit purposes and should include:
 - i. Timesheets signed by the employee and approved by their supervisor for all payroll expenses
 - ii. Purchasing documents for expenditures (if necessary based on dollar amount of purchase)
 - iii. City, state or governmental agreement number
 - iv. Formal bids for all purchases over \$50,000
 - v. Detailed receipts or invoices
 - vi. General Ledger showing expenditure activity
 - vii. Some grants may require the check number and payment date for payments issued through accounts payable
- b. The City's Finance Department, with the assistance of specific grantee City departments, shall maintain the following information
 - i. Identify, though a project and account structure, all federal awards received and expended and the federal programs under which they were received. All awards should be identifiable by the Catalog of Federal Domestic Assistance (CFDA) title and number, award number, award year, name of federal agency, and the name of the pass-through agency (if applicable).
 - ii. Maintain internal control over federal programs that provides reasonable assurance that the grantee is managing the award in compliance with the laws, regulations, and the provisions of the contract or grant agreement.

- iii. Comply with laws, regulations and the provisions of contract or grant agreements related to each grant award.
 - iv. Prepare required financial statements, including financial statements that reflect the entity's financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited. In addition, a schedule of federal assistance will be prepared for the external auditors which include all federal grants.
- c. Grant documents should be read carefully to ensure compliance with all grant requirements. Additional documentation may be required under the terms and conditions of the specific grant award to include, but not limited to, procurement justification, grant reconciliation frequency, cash match calculation and tracking, and records retention.
 - d. Grant administrators are responsible for confirming that the information in the financial system is accurate as outlined above.

IV. Audit

Per OMB Circular A-133 all non-federal entities that expend \$500,000 or more in a year on Federal awards, either as the grantee or the sub-grantee, shall have a single or program-specific audit conducted for that year in accordance with the provisions of the circular guidance. The single audit encompasses both the entity's financial statements and the Federal awards received by the entity; whereas a program-specific audit will audit one Federal program and can only be used when the grantee receives grant awards only from one Federal program. The city contracts with an external firm to conduct a single audit on an annual basis. The awarding agency may also specify additional audit requirements in the grant award letter or grant guidance.

The Finance Department, with the assistance of the specific grantee City departments, shall follow up and take corrective action on all audit findings.

Section 12 - Identify Theft Prevention Policy

In 2008, Congress directed the Federal Trade Commission (FTC) and other agencies to develop regulations requiring "creditors" and "financial institutions" to address the risk of identity theft. The resulting Red Flag Rules requires all such entities that have "covered accounts" to develop and implement written identify theft prevention programs.

The FTC defined "creditors" as businesses or organizations that regularly defer payment for goods or services and bill customers later. This includes nearly any organization extending credit, whether by granting loans, making credit decisions, etc.

Pursuant to the FTC enforcement policy of the Identify Theft Red Flags Rule, the City of Colorado Springs will evaluate risk factors to develop and implement a policy designed to help identify, detect, and respond to patterns, practices, or specific activities – known as "red flags" – that could indicate identify theft during 2011.