

Financial Policies

CITY OF WHEAT RIDGE ACCOUNTING, BUDGETING AND FINANCIAL POLICIES 2015

The City of Wheat Ridge, Colorado financial policies set forth the basic framework for the fiscal management of the City. These policies were developed within the parameters established by applicable provisions of the Colorado Revised Statutes and the City of Wheat Ridge City Charter. The policies are to be reviewed on an annual basis and modified to accommodate changing circumstances or conditions.

Basis of Accounting

The City's finances are accounted for in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB).

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. The government-wide financial statements, as well as the financial statements for proprietary funds and fiduciary funds, are reported using the economic resource measurement focus and the accrual basis of accounting. Under accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the cash is received.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they become both measurable and available, and expenditures are recorded in the period that the expenditure occurs and becomes a liability.

For accounting purposes, the budget for each department is broken down into a variety of divisions and/or program budgets. Expenditures are classified as the following:

- Personnel Services
- Services & Supplies
- Capital Outlay

Personnel Services includes salaries for full-time and part-time employees, overtime pay, insurance, retirement, and other costs related to the City. The compensation plan is intended to provide all employees with fair and equitable pay and to provide a uniform system of payment. The City has adopted a Performance-Based Pay Plan. This plan equates an employee's salary based upon the performance evaluation rating.

Services & Supplies encompasses administrative costs such as office supplies, uniforms, small tools, ammunition, salt, sand and gravel, dues, subscriptions, travel and training expense, safety

programs, audit/legal/consulting fees, telephone/utility charges, principal and interest payments, and photocopying, to name a few.

Capital Outlay consists of fixed assets over \$5,000 and a useful life of greater than one year. This expenditure area consists of furniture/fixtures, computer hardware, land, buildings, and other infrastructure. A detailed, “line-item” budget is provided to departments to facilitate monitoring of day-to-day expenditures.

Basis of Budgeting

Basis of budgeting refers to the methodology used to include revenues and expenditures in the budget. The City of Wheat Ridge budgets on a cash basis. The City does not budget for non-cash items such as depreciation and amortization. The revenues and expenditures are assumed to be collected or spent during the period appropriated. Using this assumption, the current year revenues are compared to expenditures to ensure that each fund has sufficient revenues to cover expenditures during the budget year, or that there are sufficient cash reserves in the fund to cover a revenue shortfall. The City’s operating budget and all special funds are adopted on an annual basis (the fiscal year begins with the first day of January and ends on the last day of December) with all appropriations lapsing at fiscal year-end. Capital projects and grant funds have multi-year budgets. Outstanding encumbrances at fiscal year-end are re-appropriated by approval of the City Council in the subsequent fiscal year.

Basis of Budgeting vs. Basis of Accounting

The basis of budgeting differs from the basis of accounting only by the assumptions that are made in regard to the timing of the recognition of revenues and expenditures. The budget assumes that all revenues and expenditures, as well as the associated cash, will be expended or received during the budget period. Conversely, the basis of accounting only recognizes revenues when they become both measurable and available, and expenditures when incurred. Cash is not necessarily received or expended at the same time.

Basis of Presentation – Fund Accounting

The activities of the City are organized into separate funds that are designated for a specific purpose or set of purposes. Each fund is considered a separate accounting entity, so the operations of each fund are accounted for with a set of self-balancing accounts that comprise its revenues, expenses, assets, liabilities, and fund equity as appropriate.

The number and variety of funds used by the City promotes accountability but can also make municipal budgeting and finance complex. Therefore, understanding the fund structure is an important part of understanding the City’s finances. The City uses Governmental Funds and within this fund type the City has Special Revenue Funds and a Capital Investment Project Fund.

The following is a description of the General Fund, Special Revenue Funds, the Capital Investment Program (CIP) and the Recreation Center Fund.

Governmental Funds

General Fund

The General Fund is the City's primary operating fund and is used to track the revenues and expenditures associated with the basic City services that are not required to be accounted for in other funds. This includes services such as police, public works, parks and recreation, and other support services such as human resources. These services are funded by general purpose tax revenues and other revenues that are unrestricted. This means that the City Council, with input from the public, has the ability to distribute the funds in a way that best meets the needs of the community as opposed to other funds that are restricted to predefined uses.

Special Revenue Funds

Special Revenue funds account for activities supported by revenues that are received or set aside for a specific purpose that is legally restricted. These funds are described in greater detail under the Special Funds tab of this budget document. The City has seven Special Revenue Funds: Public Art Fund, Police Investigation Fund, Open Space Fund, Municipal Court Fund, Conservation Trust Fund, Equipment Replacement Fund, and Crime Prevention Fund.

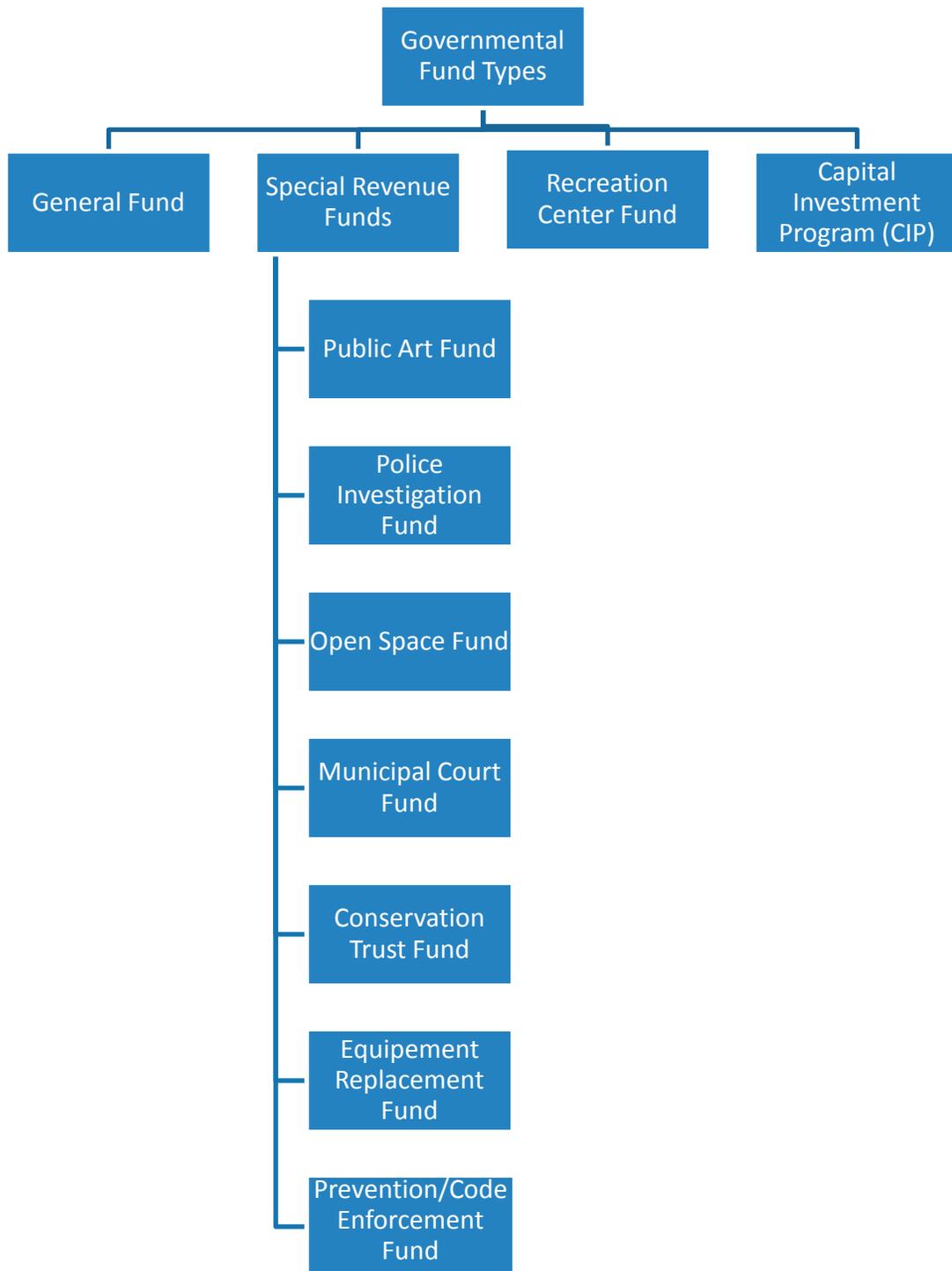
Capital Investment Program Fund

The Capital Investment Program (CIP) Fund account is for financial resources that must be used for the acquisition, improvements or construction of major capital projects. The CIP is funded by a transfer from the General Fund in addition to other revenue sources such as grants, and lodger's tax. The 10-year Capital Investment Plan lists approved and anticipated capital projects of the City, and can be located in the CIP tab of this budget document.

Recreation Center Fund

The Recreation Center Fund is a governmental fund whereby the expense of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges. However, the Recreation Center Fund is not completely self-sufficient and internal services such as information technology and human resources costs are covered under the General Fund. In the event that these user charges are insufficient to cover the operations of the Recreation Center Fund, transfers can be made from other fund types to provide additional financial support.

A chart depicting the City's Governmental Fund Types is included on the next page.



Budget Process & Timeline

In accordance with the City Charter, the annual budget process and timeline is outlined in the Budget in Brief section of this budget document.

Procurement Planning

All City purchases of goods or services are made in accordance with the State of Colorado Revised Statutes, Wheat Ridge City Charter and the City's Purchasing Guidelines.

Financial Reporting

The City's accounting records are audited by an independent certified public accounting firm following the conclusion of each fiscal year in accordance with the City Charter and state law. The City Manager and Administrative Services Director prepares a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP) as applicable to state and local governments established by the Governmental Accounting Standards Board (GASB) for governmental accounting and financial reporting principles. The CAFR shows the status of the City's finances on the basis of GAAP. The CAFR shows fund revenues and expenditures on both a GAAP basis and budget basis for comparison purposes.

Debt Management Policy

The City Council adopted a Debt Management Policy in June of 2011. This policy is included on page 296.

Unrestricted Fund Balance Policy

The City Council adopted an Unrestricted Fund Balance Policy in June of 2011. This policy is included on page 299.



Financial Policies

CITY OF WHEAT RIDGE DEBT MANAGEMENT POLICY *Adopted by City Council June 2011*

The City of Wheat Ridge (City) recognizes the importance of long-range, financial planning in order to meet its capital project and improvement needs. The following debt management policy provides guidance on the issuance of debt to help ensure that the City maintains a sound debt position and that its credit quality is protected. As such, the policy allows for an appropriate balance between establishing debt parameters while also providing flexibility to respond to unforeseen circumstances and new opportunities.

Responsibility and Administration of Policy

The primary responsibility for developing long-term, financing recommendations rests with the City Manager. During the annual budget process, and at any other time during the year that may be warranted, the City Manager will work with the Administrative Services Director and the City Treasurer (the internal working group) to determine if there is a need for long-term financing consideration. As part of the determination process, the internal working group shall review the financing needs outlined by the Capital Investment Program (see below) to analyze the capital financing needs compared with available resources. The internal working group will also provide recommendations regarding refunding and restructuring of existing debt.

Once the determination is made by the internal working group to pursue finance borrowing, a refunding, or restructuring of debt, the City Manager shall prepare and present to City Council a resolution of intent to issue debt and authorizing City staff to proceed with the necessary preparations. The City Charter (Chapter XII – Municipal Funding) outlines the specific approvals (e.g. voter authorization, majority vote by City Council, etc.) that are required in order for the City to issue various types of debt and this policy will be administered in conformity with the City Charter.

The City Manager and City Treasurer will review the Debt Management Policy annually in connection with the City's annual budget process to ensure that the City is adhering to the framework outlined in this policy and will make recommendations to revise the policy as needed.

Capital Investment Program

The Capital Investment Program (CIP) will be utilized to identify capital projects and/or improvements that are part of the City's strategic vision and economic development efforts.

The CIP will cover, at a minimum, a 10-year period and provide a projection of the financing needs required to implement the CIP. The CIP will include the associated ongoing operations and maintenance costs of such capital assets and/or improvements so that the total costs of the projects are considered. The CIP will be updated annually by the City's Public Works' Director as part of the budget process.

Purpose of Debt

Incurrence of debt or long-term borrowing will only be used for the purpose of providing financing for capital assets, which include but are not limited to buildings, infrastructure, land acquisition and purchase of significant equipment. The City, under no circumstances, will issue debt or borrow funds to finance City operations and maintenance costs.

The City will strive to maximize the use of pay-as-you-go financing for capital projects and improvements. Debt borrowing will be considered when annual revenues and accumulation of fund balances are not sufficient to provide the necessary funding for such projects.

Types of Debt

The types of debt instruments to be used by the City may include:

- General Obligation and Revenue Bonds
- Short-term notes
- Special or Local Improvement bonds
- Certificates of Participation
- Any other legally recognized security approved by City Council

Although permitted by the City Charter, the City will avoid the issuance of tax or revenue anticipation notes.

Additionally, the City will strive to secure a fixed rate structure when issuing debt. The City will consider a variable rate structure when market conditions favor this type of issuance, and when feasible, ensure there is a maximum interest rate provided within the variable rate structure.

Credit enhancements will be used only in instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.

Level of Debt

The City's aggregate amount of bonds or other evidences of indebtedness outstanding will not exceed three percent (3%) of the actual valuation of the taxable property within the City as shown by the last preceding assessment. In determining the amount of indebtedness outstanding, the City will adhere with the computation guidelines as established by City Charter.

The City will strive to maintain its annual debt service costs (principal and interest) for its governmental activities at a level of no greater than 10% of general fund expenditures. The repayment terms of the debt will not exceed the useful life of the capital asset financed. Further, the City will seek level or declining debt repayment schedules and will not issue debt that provides for a balloon principal payment reserved at the end of the term of the issue. Moreover, the City will also strive to obtain redemption terms that allow for the prepayment of debt without paying a redemption penalty.

Debt Issuance Practices

As part of its debt issuance process, the City will at all times manage its debt and sustain its financial position in order to secure and maintain an Aa/AA or higher bond rating. The City will market its

debt through the use of a competitive bid process when issuing general obligation debt. The competitive bid process will also be used for other debt issuances unless time, interest rates and/or other factors make it more favorable for the City to use a negotiated process.

If needed, the City will hire an independent financial advisor, and any other professional service provider (e.g. bond counsel), to assist in the structuring of the debt transaction and to provide overall guidance throughout the process.

Guidelines for Refunding

The City shall consider refunding (advance and current refunding) outstanding debt whenever an analysis indicates the potential for net present value (NPV) savings of at least three percent (3%) can be achieved. The City may also consider refunding outstanding bonds to remove existing restrictive covenants.

The City shall also consider restructuring its existing debt in order to extend the payment terms to meet cash flow needs if deemed beneficial to the City's long-term financial and strategic planning.

Post Issuance Management

The City will invest its debt proceeds in accordance with the City's investment policy and statutory requirements. Funds will be invested in instruments and with related maturities that will provide the liquidity needed to meet the cash flow needs of each project. In this regard, the City Treasurer will prepare a cash flow projection to determine the availability of funds available to be invested and their respective required maturities.

The City will comply with all arbitrage rebate requirements as established by the Internal Revenue Service. Arbitrage will be calculated at the end of each fiscal year and interest earned on the investment of debt proceeds will be reserved to pay any penalties due. Secondary market disclosures requirements established within the terms of the debt transaction will be adhered to and filed on a timely basis.

The City Treasurer will be responsible for managing the post issuance requirements listed above and/or cause any post issuance requirements to be completed.

Financial Policies

CITY OF WHEAT RIDGE UNRESTRICTED FUND BALANCE POLICY *Adopted by City Council June 2011*

The City of Wheat Ridge has determined it to be a sound, financial practice to maintain adequate levels of unrestricted fund balance in its General Fund in order to mitigate current and future risks such as revenue shortfalls and unanticipated expenditures as well as to ensure stable tax rates. Additionally, the City believes that adequate unrestricted fund balance levels are a critical consideration to the City's long-term financial planning. In this regard, the City has established the following fiscal policy related to its unrestricted fund balance.

Maximum and Minimum Amounts

The City will maintain a minimum unrestricted fund balance of at least two months or approximately 17%, as recommended by the Government Finance Officers' Association (GFOA), of its General Fund operating expenditures. The City's maximum unrestricted fund balance shall not exceed 35.0% of General Fund operating expenditures. Not precluding the aforementioned minimum and maximum percentages, the City will annually target to maintain a 25.0% unrestricted fund balance percentage level as part of its annual budget process.

Use of Funds

While targeting to maintain an annual unrestricted fund balance of 25.0%, the City understands there may be circumstances that warrant that the City use these funds temporarily. The City has established the following instances where it may elect to use these funds:

- An economic downturn in which revenues are below budget
- Unexpected and unappropriated costs to service and maintain current City operations
- Unexpected and non-budgeted emergencies, natural disaster costs, and/or litigation
- Grant matching
- Early retirement of debt
- To cover deficits in other funds due to a shortfall in budgeted revenues
- Capital asset acquisition, construction and improvement projects

The use of the unrestricted fund balance for the above permitted events which cause the unrestricted fund balance to fall below the targeted 25% level will require a majority vote by City Council. Use of the restricted fund balance which causes the unrestricted fund balance to fall below the minimum required level of 17% will require a super majority vote by Council.

Terms for Replenishing

In instances where the City elects to use its unrestricted fund balance for capital asset acquisition, construction and improvement projects, the City shall replenish the unrestricted fund balance

to its previous level as soon as possible, but only after the City's current operational needs are met, and in no case, more than two years subsequent in which the unrestricted fund balance was used. For any and all other instances, as permitted by this policy, in which the City elects to use its unrestricted fund balance, the City will replenish the unrestricted fund balance as soon as revenues are available, but only after the City's current operational needs have been met.

Excess Funds

In the event the City has accumulated its permitted, maximum unrestricted fund balance of 35.0%, the City, at the discretion and determination of City Council and the City Manager, will designate such excess funds for the following purposes:

- Reserves for equipment replacement
- Repair and maintenance of City facilities
- Funding of infrastructure improvements

Review of Policy

The City Treasurer will review the Unrestricted Fund Balance Policy annually in connection with the City's annual budgeting process to ensure that the City is maintaining adequate unrestricted fund balance levels. Additionally, at least every three years, the City Manager will review the policy and will make recommendations for modification as deemed appropriate. This policy was written using the guidelines set forth by the GFOA. As such, any updates issued by the GFOA shall be considered by the City Manager when making recommendations for modifications to this policy.

