

Statement of Financial Principles

Section 1: Purposes

The purposes of the Statement of Financial Principles are: To provide a sound basis for budgeting and financial management; To identify practices and procedures that contribute to prudent use of public funds; to serve as a guide to the Administration and City Council in developing and approving the annual budget; and, to be a tool for educating the community regarding the basis of financial decision making.

Section 2: General Financial Goal

To manage the resources of the City in a prudent and conservative manner that supports the economic, social and environmental values of the community.

Section 3: General Principles

- a) The City Council will review its goals and priorities annually before the budget is prepared. The Goals will serve as a guideline for preparation and approval of the budget.
- b) The City will maintain a level of expenditures that will provide for the well-being and safety of the general public and citizens of the community.
- c) The City will manage financial assets in a sound and prudent manner.
- d) The City will maintain and further develop programs to ensure its long-term ability to pay all the necessary costs to provide the highest quality service required by the residents of the City of Ojai.
- e) The City will adopt its annual budget by June 30 of each year as required by the statutes of the State of California. The objective is to balance the budget without the use of General Fund unassigned fund balances or reserves.

- f) The City will maintain and improve its infrastructure.
- g) The City will provide funding for capital equipment replacement, including vehicles, technology, and other equipment needed to achieve greater efficiency in its operations. The City shall establish a financial mechanism to set aside money over time to fund scheduled replacement of equipment and technology.
- h) All City officials and employees shall conduct themselves in a manner that will not expose the City to any liability.
- i) Fraud or misuse of City money and property, in any form, is not tolerated. Employees are expected to discuss instances of suspected fraud with their immediate supervisor or other appropriate executive management personnel immediately. All allegations of fraud or misuse of City money and property will be investigated in an appropriate manner and "whistle blowers" will be protected from all forms of retaliation.

Section 4: Revenue Policies

- a) The City will use a conservative approach in estimating revenues to maintain financial flexibility to adapt to local and regional economic changes.
- b) The master fee schedule will be updated annually to recover, as much as possible, the cost of providing service and to allow for inflationary cost increases, but keeping in mind that fees are not to exceed the cost of providing the basic service. In some instances, the City may not want to charge any fees or the full cost of providing the service, if it is in the City's best interest to do so. These charges or fees for services will be identified during the budget approval process.
- c) The City will aggressively pursue revenue collection and auditing to ensure that monies due the City are received and accurately recorded in a timely manner.
- d) One-time revenues will be used for one-time expenditures.
- e) Revenues that exceed expenditures at the end of the year shall be first used to satisfy the general reserve requirements before being appropriated for other uses.

- f) The City will continue to explore revenue-raising alternatives as necessary and pursue all appropriate grants available for local government. (The City may consider not accepting a grant if the grant requires continued City funding after the grant expires or if the City's "match" requirement would be excessive.)
- g) Program managers for special revenue funds shall diligently pursue reimbursements of receipts of grants in a timely manner to minimize the negative impact to the General Fund's investment earnings.
- h) The City Council shall be promptly informed of any significant revenue gain or loss impacting the City.

Section 5: Expenditure/Budget Policies

- a) Current year operating expenditures shall be funded by current year operating revenues.
- b) The City will continue to explore options to deliver services in the most cost-effective method, including public-private partnerships and partnerships with other governmental agencies.
- c) Programs that are funded through user fees shall be self-supporting. (The City may partially subsidize some of these programs if it is in the City's best interests to do so.)
- d) Additional appropriations requests beyond the adopted budget must be approved by the City Council.
- e) Departments' fiscal year-end expenditures must be within approved appropriations by fund.
- f) Departments with an approved capital outlay budget that are unable to purchase the capital item by the end of the year *may* carry over a specified amount to the next fiscal year with the specific approval of the City Manager.
- g) Departments with encumbrances at the end of the fiscal year must receive approval from the City Manager to carry over any encumbrances. Each encumbrance will be considered separately.
- h) Salary and benefit savings at the end of the fiscal year will not be carried forward.

- i) Salaries and benefits savings may not be transferred to fund maintenance and operations items other than those for which savings from vacancies are used for temporary or contractual services.
- j) Departments shall adhere to the City's purchasing guidelines when expending funds.
- k) All City officials and employees shall adhere to the City's conference and travel expense policy. The City Manager shall approve all conference and travel for City employees.
- l) When appropriate, projects or programs that have multiple funding sources must first use funds that have the most restrictions before using the General Fund, unless otherwise approved by the City Council.

Section 6: Capital Improvement Projects (CIP) Policies

- a) The City will develop and implement a five-year capital improvement plan.
- b) In order to assure that the five year capital improvement plan is adequately funded, the City will set aside in its annual budget process a reasonable and prudent amount of General Fund monies for capital improvements and repairs to various facilities. The portion contributed shall be at least \$300,000 in the first year, and shall be increased annually until the amount is determined to be sufficient to properly maintain City infrastructure.
- c) The City shall establish a financial mechanism to set aside money over time to fund scheduled replacement of equipment such as vehicles and technology.
- d) The long term operating impact of any capital improvement project must be disclosed before the project is recommended for funding.
- e) The City will select only the most responsible and reputable contractors to work on capital projects.
- f) The City will abide by applicable Federal, State and local laws/regulations on public works contracts.

Section 7: Debt Policies

- a) The City shall avoid, as much as possible, incurring general obligation debt.

- b) The City may participate in the statewide issuance of Tax & Revenue Anticipation Notes (TRANs) in accordance with applicable TRANs guidelines.
- c) For short-term debt requirements the City shall consider inter-fund loans, when it is more cost effective and feasible, rather than borrowing from sources outside the City.
- d) The City may use lease-purchase financing when it is cost effective.

Section 8: Investment Policies

- a) The City Treasurer shall abide by the City's adopted investment policy and shall submit a monthly report to the City Council on the investment activities.
- b) The investment policy shall be reviewed and approved annually by the City Council.

Section 9: Inter-fund Transfer Policies

- a) Transfers to the General Fund from other funds for overhead costs shall be reviewed annually and shall conform to OMB (Office of Management & Budget) A-87 guidelines.
- b) All City funds, including eligible grant funds, shall share the administrative costs borne by the General Fund.

Section 10: Special Revenue Fund Policies

- a) The City shall abide by applicable rules and regulations pertaining to the expenditures of special revenue funds as required by the funding source.

Section 11: Accounting, Auditing & Financial Reporting Policies

- a) The City will comply with all generally accepted accounting principles (GAAP) and adhere to the statements issued by the Governmental Accounting Standards Board (GASB).

- b) Unfunded "other post-employment retirement benefits (OPEB)" shall be reported as required by GASB Statement 45. The City shall develop a plan to pre-fund all or a portion of its OPEB liability.
- c) The City shall retain the services of an independent auditor to perform annual financial audits.
- d) The City shall routinely bid for audit services, at a minimum, every five years. Audit contracts shall not exceed five years.
- e) The City Council shall be promptly informed of any significant financial reporting issue or any audit findings.

Section 12: Reserve Policies

- a) The City shall maintain a "minimum reserve" for contingencies, equivalent to 50% of the General Fund's expenditures in the current fiscal year budget. Maintaining this minimum reserve will also allow the City to continue to accrue a certain level of investment earnings and provide sufficient cash flow reserves. The minimum reserve requirement will be reviewed by the City Council as necessary, but not less than annually.
- b) Unassigned fund balances shall be used for one-time expenditures, preferably only on capital improvement items.
- c) The remaining unassigned fund balances, after all "reserve" requirements are met, may be transferred to the capital projects fund or may be used to increase funds set aside for capital equipment replacement, subject to City Council approval. The process will be annually reviewed by the City Council.
- d) The City may alter reserve requirements at any time, as necessary.
- e) The reserves or fund balances designated for claims and judgments shall be maintained at appropriate levels as authorized by the City Council.
- f) The reserves or fund balances designated for compensated absences shall be maintained at appropriate levels as authorized by the City Council.
- g) Council approval will be required before expending funds designated for contingencies or any other balance for a designated use.

Statement of Investment Policy

I. INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy for public money and to formalize the City's investment-related activities. Such activities, which collectively constitute a comprehensive cash management program, include accurate cash projections, the expeditious collection of revenue, the control of disbursements, and cost-effective banking relations. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

II. SCOPE

It is intended that this policy cover all funds and investment activities under the authority of the City, with the exception of bond proceeds, which are administered by a third party fiscal agent.

III. OBJECTIVES

- A. **Safety:** It is the primary duty and responsibility of the Investment Officer to protect cash and investments placed in his/her trust on behalf of the citizens of the community.
- B. **Liquidity:** An adequate percentage of the portfolio should be maintained in liquid short-term securities, which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis shall be on marketable securities with low sensitivity to market risk.

- C. **Yield:** Yield shall become a consideration only after the basic requirements of safety and liquidity has been met.
- D. **Market-Average Rate of Return:** The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and State and local laws, ordinances or resolutions that restrict investments.
- E. **Diversification:** The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
- F. **Prudence:** The standard of prudence to be used by investment officials shall be the "prudent investor" per Government Code section 53600.3, which states:

A trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

This "Prudent Investor Standard" shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments. It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

- G. **Public Trust:** All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a

diversified portfolio with a "hold to maturity" policy it must be recognized that occasional, temporary market losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. Any temporary losses or gains caused by holding an investment until maturity are eliminated upon maturity of the investment.

IV. DELEGATION OF AUTHORITY (GOVERNMENT CODE SECTION 53607)

- A. Investment Officer:** The Treasurer designates Director of Finance to be the Investment Officer for the City of Ojai. The responsibility of the placement of all investments is hereby delegated to the Investment Officer who shall establish and adhere to written procedures, which will comply with all sections of the Government Code of the State of California.
- B. Investment Oversight Committee:** The Finance Committee shall be the investment oversight committee, which consists of the City Manager, the Director of Finance, the City Attorney, the City Treasurer and two City Council members. The purpose of the committee is to: 1) review the investment practices used by the Investment Officer for compliance with the investment policy and written procedures; 2) analyze the monthly Treasurer's report for adherence to established guidelines; and 3) advise City Council of any deviations from guidelines or any practices which are deemed to be imprudent for a public agency. The committee shall perform these procedures at least quarterly unless internal or market circumstances require otherwise.

V. REPORTING

The Treasurer shall submit a monthly investment report to the City Council. Required elements of the monthly report:

- a) Type of investment/issuer;
- b) Date of maturity;

- c) Cost of the security;
- d) Current market value of securities with maturity in excess of 12 months;
- e) Rate of interest of securities.

VI. AUTHORIZED INVESTMENT INSTRUMENTS FOR THE CITY OF OJAI

The following investment instruments are authorized for use by the Investment Officer:

U.S. Treasury Bills

Definition: Treasury Bills are direct obligations of the United States Government. They are issued weekly with maturity dates up to one year. They are issued and traded on a discount basis and the interest is computed on a 360-day basis. They are issued in minimum transaction amount of \$10,000 in multiples of \$5,000 above that.

Security Requirements: They are highly liquid, in addition to being considered the safest of all investments.

Certificates of Deposit (CD)

Definition: A time deposit with a specific maturity evidenced by a certificate.

Security Requirements: All such deposits will be insured by an agency of the Federal Government or secured by sufficient collateral. On all deposits over \$250,000, that do not fall under the insurance protection, a minimum 110 percent in government securities or 150 percent in first mortgages for additional collateral security will be required. Should mortgages be chosen for the additional security, they will be variable interest rate mortgages in order to meet competitive market rates at any given time. The above deposits will not be made with any institution, whether located within the City or elsewhere, regardless of their size, unless they have a rating, which exceeds the average rate of all banks in the State of California. Local

institutions will be given preference whenever practicable.

Federal Agency Issues

Definition: These are securities issued by various federal agencies and are guaranteed directly or indirectly by the United States Government. All agency obligations qualify as legal investments and are acceptable as security for public deposits. Examples are:

. . . FHLB's (Federal Home Loan Banks) offer debt instruments used to finance loans to member banks. They are issued intermittently in minimum denominations of \$5,000;

. . . FICB's (Federal Intermediate Credit Banks Debentures) are loans to lending institutions used to finance the short-term and intermediate needs of farmers, such as seasonal production. They are usually issued monthly with a nine-month maturity in minimum denominations of \$5,000;

. . . FFCB's (Federal Farm Credit Banks) are debt instruments used to finance the short and intermediate term needs of farmers and the national agricultural industry. They are issued monthly with three and six month maturities; and

. . . FLBB's (Federal Land Bank Bonds) are long-term mortgage credit provided to farmers by Federal Land Banks. These bonds are issued at irregular times for various maturities from a few months to ten years. The minimum denomination is \$1,000. They carry semi-annual coupons. Interest is calculated on a 360 day, 30-day month basis. They usually provide higher yields than regular treasury issues with the same advantages.

Security Requirements: Investments will be held by a third party fiscal agent.

Negotiable Certificates of Deposit (NCD)

Definition: Negotiable Certificates of Deposit are unsecured obligations of the financial institution, bank or savings and loan, bought at par value with promise to pay face value plus accrued interest at maturity. They are high-

grade negotiable instruments, paying a higher interest rate than regular CD's. The primary market issuance is in multiples of \$1 million; the secondary market usually trades in denominations of \$500,000, although smaller lots are occasionally available.

Security Requirements: Although the Government allows a 30 percent limit, no more than 5 percent of City's idle funds will be invested in any one institution and cannot exceed shareholders' equity of that institution. Furthermore, all such deposits will be insured by an agency of the Federal Government or secured by sufficient collateral. On all deposits over \$100,000, that do not fall under the insurance protection, a minimum 110 percent in government securities or 150 percent in first mortgages for additional collateral security will be required. Should mortgages be chosen for the additional security, they will be variable interest rate mortgages in order to meet competitive market rates at any given time. The above deposits will not be made with any institution, whether located within the City or elsewhere, regardless of their size, unless they have a rating, which exceeds the average rate of all banks in the State of California. Local institutions will be given preference whenever practicable.

Local Agency Investment Fund (LAIF)

Definition: The Local Agency Investment Fund is a voluntary investment alternative for California's local governments and special districts authorized by the California Government Code. The LAIF is managed by the State Treasurer's Office with oversight by the Local Agency Investment Advisory Board. All securities in LAIF are purchased under the authority of Government Code Sections 16430 and 16480.8. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$40 million for any agency. It offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share.

Security Requirements: State law prohibits LAIF from impounding any depositor's funds and prohibits the fund from declaring bankruptcy. State statutes define and authorize the permissible investments of the fund.

VII. INTERNAL CONTROLS

A system of internal controls shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion; separation of duties; separating transaction authority from accounting and recordkeeping; custodial safekeeping; clear delegation of authority; written confirmation of telephone transactions, minimizing the number of authorized Investment Officials; documentation of transactions; and code of ethics standards.

In addition, timely bank reconciliation will be conducted to ensure proper handling of all transactions. The investment portfolio and all related transactions will be reviewed and balanced to appropriate general ledger accounts by the Department of Administrative Services on a monthly basis

VIII. MATURITIES

Investment Limitations. Security purchases and holdings should be maintained within statutory limits imposed by the Government Code. Current Government Code limits are:

Permitted Investments Deposits	Percentages	Maximum Maturity
Securities of the US Govt. (1)	Unlimited	5 years*
Certificates of Deposits (1)	Unlimited	5 years*
Negotiable Certificates of Deposit(1)	30%	5 years*
LAIF	\$50 Million per acct**	N/A
Passbook Deposits	-	

*Maximum term unless expressly authorized by City Council and within the prescribed time frame for said approval

**Limit set by LAIF Governing Board, not Government Code.

(1) The Investment Officer shall obtain concurrence from the City Treasurer or City Manager prior to purchasing any of the Securities of the US Govt., Certificates of Deposit and Negotiable Certificates of Deposit

IX. BANKS AND QUALIFIED SECURITIES DEALERS

In selecting financial institutions for the deposit or investment of City funds, the Investment Officer shall consider the creditworthiness of institutions. The Investment Officer shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

The City shall transact business only with banks, savings and loans, and broker/dealers. The broker/dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank or regional brokers, which have complied with the City of Ojai's broker/dealer certification process. The Investment Officer will be limited to actively conducting business with no more than three brokers/ dealers.

The Investment Officer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

X. RISK TOLERANCE

The City recognized that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Investment Officer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity. In addition to these general policy considerations, the following specific policies will be strictly observed.

- A. All transactions will be executed on a delivery versus payment basis.
- B. A competitive bid process, when practical, will be used to place all investment purchases, other than those that are classified as "new issue" securities.
- C. Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City of Ojai Investment Policy and supersede any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment, if it is deemed prudent by the Investment Officer, until the maturity date to avoid an unnecessary loss.

XI. SAFEKEEPING AND CUSTODY

Securities purchased from broker/s dealers shall be held in a third party custodian/safekeeping account. Said securities shall be held in a manner that establishes the governmental entity's right of ownership.

All securities owned by the governmental entity shall be held by a third party except the collateral for time deposits in banks and savings and loans. Collateral for time deposits in savings and loans is held by the Federal Home Loan Bank or an approved Agent of Depository. The collateral for time deposits in banks should be held in the entity's name in the banks' Trust Department, or alternatively, in the Federal Reserve Bank.

XII. STATEMENT OF INVESTMENT POLICY

The Statement of Investment Policy shall be reviewed and submitted annually to the City Council for adoption by resolution. This is to ensure the policy's consistency with the overall objectives of preservation of principal, liquidity of yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval.