

# Financial Management Policies

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## Budgetary Practices

### 1. Budget Practices:

Each department prepares its own budget for review by the City Manager. The budget is approved by motion of the City Council at an advertised public hearing. By City of Anaheim Charter, the operating and capital budgets (together, the “budget”) are adopted at the department level. During the year, it is the responsibility of the City Manager to administer the budget. The City Manager has the authority to transfer budgeted amounts within departments, but changes in the total appropriation level for any given department can only be enacted by the Council through an amendment to the current budget. The City will strive to adopt an annual General Fund budget in which expenditures, net of one-time expenditures, do not exceed projected recurring revenues. As a management policy, budgetary control is maintained in all funds at the program level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. A five-year projection of revenues and expenditures for all departments and all funds is prepared each year to provide strategic perspective to the annual budget process.

### 2. Budget Process:

In November of each year, the City Council reviews and/or establishes its goals on which the City’s budget will be built. Annually in January, the Finance Department hosts a public mid-year workshop with the City Council, during which Citywide goals are discussed and re-affirmed. Each year in February, every department submits its budget to the City Manager for review. Citizen participation in the budget planning process is encouraged through several Council-appointed boards and commissions. In addition, public hearings are held to address the entire plan and for specific funds, such as Housing Authority and Community Development Block Grant monies. The Budget Advisory Commission reviews the budget and presents its findings and recommendations to the City Council. The City Council approves the budget at an advertised public hearing in June.

Action	Date
Mid-year Workshop	January 25, 2005
City Manager reviews proposed budgets	February 23 – March 17, 2005
Distribute budget to City Council/public	May 2, 2005
Budget Advisory Commission reviews proposed budget	May 18, 2005
City Council Public Hearings	June 7, June 14, 2005
City Council adopts FY 2005/06 budget	June 14, 2005

### 3. Basis of Budgeting:

Budgets for all Governmental Funds (e.g., the General Fund) and Fiduciary Funds are prepared on a modified accrual basis. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available.

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The Proprietary Funds (for example Electric Utility) also recognize expenditures as encumbrances when a commitment is made, such as through a purchase order. Revenues, however, are recognized when they are obligated to the City. As an example, revenue from the sale of electricity is recognized when the service is provided.

In all cases (Governmental, Proprietary and Fiduciary Funds), when goods and services are not received by year-end, the encumbrances lapse.

The Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances on the basis of accounting principles generally accepted in the United States of America (GAAP). In most cases this conforms to the way the City prepares its budget. Exceptions are as follows:

- a. The compensated absences liability is accrued as an expense when earned by employees (GAAP) as opposed to being expensed when paid (budget).
- b. Principal payments on long-term debt within the Proprietary Funds are applied to the outstanding liability on a GAAP basis, as opposed to being expensed on a budget basis.
- c. Capital outlay within the Proprietary Funds are recorded as assets on a GAAP basis and expensed on a budget basis.
- d. Depreciation expense is recorded on a GAAP basis only.
- e. Sales of land held for resale are recorded as a gain or loss (GAAP) as opposed to a revenue when land is sold (budget).
- f. Purchases of land held for resale are recorded as assets on a GAAP basis and expensed on a budget basis.

#### 4. Capital Improvement Program Practices:

Along with the operating budget, the City Manager submits a Capital Improvement Program (CIP) to the City Council. This document provides for improvement to the City's public facilities for the ensuing fiscal year and four years thereafter. The first year of the plan establishes a capital budget for the new fiscal year. The remaining four years serve as a guide for use in determining the long-term capital priorities of the City. The CIP is adopted at the department level. CIP expenditures are accounted for in a variety of funds including, but not limited to, the Capital Projects Funds and the Enterprise Funds and are funded by a variety of sources. The City strives to maintain a high reliance of pay-as-you-go financing for its capital improvements in order to maintain debt within prudent limits. The City's most recent bond ratings received for general obligations bonds are "Aa2" issued by Moody's Investors Service and "AA" issued by Standard and Poor's.

#### **Cash Management/Investment Practices**

1. The majority of unrestricted cash is combined into one pooled operating account to facilitate effective management of the City's resources.

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2. The City Treasurer invests temporarily idle funds in accordance with Government Code Sections 53600 et al, 16429.1 and 53684 and a formal investment policy approved by the City Council and the Investment Advisory Commission. Permissible investments include obligations of the U.S. Government, Federal Agencies, Government Sponsored Enterprises Medium Term Notes, Certificates of Deposit, Bankers Acceptances, Commercial Paper rated A-1 by Standard and Poor's Corporation, P-1 by Moody's Investors Service or F-1 by Fitch Ratings, State of California Local Agency Investment Fund, Repurchase Agreements, Reverse Repurchase Agreements, and Money Market Mutual Funds.

### **Accounting, Auditing and Reporting Practices**

1. The basis of accounting within Governmental Fund types used by the City is modified accrual. Under this method of accounting, revenue is recorded when susceptible to accrual, which is when both measurable and available for the funding of current appropriations. Further, expenditures are recognized when the related fund liability is incurred. Under the modified accrual basis of accounting, principal and interest on long-term debt are recorded as fund liabilities when due. All Enterprise and Internal Service Funds follow the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when incurred.
2. The City places continued emphasis on maintenance of an accounting system that provides strong internal budgetary and accounting controls. It is designed to provide reasonable assurances regarding both the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and reports, such as the budget and the City's Comprehensive Annual Financial Report (CAFR), as well as the maintenance and accountability of assets.
3. The City of Anaheim issues a CAFR in accordance with accounting principles generally accepted in the United States of America and outlined by the Governmental Accounting Standards Board.
4. An independent audit of the City's CAFR is performed annually.

### **Revenue and Expenditure Policies**

1. The City will strive to adopt an annual General Fund budget in which expenditures, net of one-time expenditures, do not exceed projected recurring revenues.
2. A five-year budget, including revenues and expenditures, is prepared annually for all funds to provide strategic perspective to each annual budget process.
3. On an annual basis, the City will set fees and rates at levels that fully recover total direct and indirect costs.
4. If new budget appropriation needs are identified at an interim period during the fiscal year, at the department level, formal budgetary authority will be requested from the City Council.

### **Capital Financing and Debt Management Policies**

1. Long-term borrowing will not be used to finance current operations or normal maintenance.
2. All debt issued, including use of the lease-purchase method, will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.

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3. The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements.
4. The City will maintain a minimum unreserved fund balance in the General Fund of between seven and ten percent of General Fund budgeted expenditures.
5. Annually, a five-year budget will be developed analyzing all anticipated operating and capital expenditures by year and identifying associated funding sources.