

**CITY OF SOUTH EL MONTE CITY CITYWIDE FINANCIAL POLICIES
ADOPTED MAY 12, 2020 ON RESOLUTION 20-44**

WHEREAS, a key part of the City's preparation for the upcoming audit is the development of financial policies, and as such, the City staff has prepared a set of policies to guide the City through its financial decision making; and

WHEREAS, the financial policies developed aim to promote and facilitate positive change and recognize excellence, rather than merely codifying current accepted practices; and

WHEREAS, part of the goal of the financial policies is to identify and develop "Best Practices" for policies that contribute to sound government financial management; and

WHEREAS, "Best Practices" are applicable to all sizes of government and represent the official position on an entity's financial management; and

WHEREAS, the policies that have been developed encompass the requisite elements for a sound financial management foundation; and

WHEREAS, it is planned that on an annual basis the City-wide financial policies will be reviewed, updated, and submitted to City Council for approval on any updates and reaffirmation of those sections that remain unchanged; and

WHEREAS, the City Council now wishes to approve the following financial policies.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of South El Monte as follows:

Section 1. With the adoption of this Resolution the City of South El Monte City Council hereby declares its City-wide Financial Policies as stated herein.

Section 2. The City-wide Financial Policies shall serve as a guiding principle of organizational adherence to industry best practices. It shall therefore be the obligation of the City Council to periodically review the Financial Policies with intention to amend the policies as the City's organization and management needs evolve to better reflect changes in laws, economic conditions, or industry best practices.

A. General Fund Reserves – The City shall maintain General Fund Reserves (Unassigned Fund Balance) at a minimum of 25% and a maximum of 100% of General Fund expenditures. The minimum reserve level corresponds to the approximate value of three months of operating expenditures.

B. Annual Budget Adoption – The annual budget shall be adopted by the City Council by June 30 of each fiscal year and include proposed expenditures and the means of financing them for all active funds. The annual budget shall provide for the general operations of the City and, as appropriate, its near-term and long-term goals and objectives. To the best of the City's abilities, recurring revenues shall be applied towards recurring expenditures and non-recurring revenues will be applied toward non-recurring expenditures.

C. Appropriations and Budget Authority – The City Council shall approve the budget and any amendments to it throughout the fiscal year. The adopted expenditures budget, or “appropriations”, shall include transfers out as needed. Actual expenditures shall not exceed appropriations at the fund level. The City Manager is authorized to make budget allocations within funds. Only City Council is authorized to amend the budget at the fund level.

D. Financial Condition Reporting – The City shall publish, no less than quarterly, at a public meeting of the City Council, budget-to-actual comparison reports adequate to inform the City Council of the adherence to the adopted budget. The City shall also publish a Midyear Financial Condition Report in March of every year that provides information sufficient for the City Council to provide short, medium, and long-term general financial planning and budget preparation guidelines to the City Manager.

E. Long-Range Financial Planning – The City shall publish, as a component of its annual budget, a three-year financial projection of its activities and operations.

F. Capital Planning – The City shall publish, with its annual budget, a long- range capital improvement program, identifying the conditions of existing capital assets and the risks associated with any deferred capital outlays. For any new construction or equipment, the capital improvement plan shall provide possible sources of funding.

G. Encumbrance Accounting Systems – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, shall be employed as a budgetary control throughout the year. However, at year-end, all appropriations lapse. Accordingly, encumbrances are liquidated at year-end. Cancelled encumbrances can be re-appropriated as part of the following year’s budget through City Council adoption.

H. GAAP Requirements – Budgets for the general, special revenue, capital projects, and debt service funds shall be adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures shall be compared with adopted budget amounts without any significant reconciling items.

I. The Gann Limit – Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. The City shall calculate and publish its annual Gann Limit prior to budget adoption.

J. Capital Assets – In general, the City shall capitalize assets and equipment with individual minimum value of \$5,000 or greater. However, machinery and equipment that have an aggregate value of \$5,000 or greater which can be identified as a single unit may be capitalized as such.

K. Investment Policy – The City shall always take a “conservative” approach in adherence to the California Government Code with respect to the content and function of its Investment Policy. The Investment Policy shall be reviewed and adopted by the City Council at a public meeting of the City Council in January of each year. The City’s investment objectives shall be, in order of importance: (a) safety of public funds; (b) liquidity of funds to meet organizational requirements; and (3) investment yields in the marketplaces allowed by the California Government Code and the City’s Investment Policy.

L. Investment Reporting – The City shall publish quarterly reports at a public meeting of the City Council which shall include all reportable elements specified in the City’s Investment Policy.

M. Procurement – The City shall maintain a Procurement Policy and organize its acquisition and accounting procedures to achieve compliance with all terms of the Procurement Policy.

N. Contracts Reporting – The City shall publish on a quarterly basis, at a public meeting of the City Council, a contract (and agreements) status report describing contract term, contract amendment, original contract value, amended contract value, and current expenditure status. The project manager for each contract or agreement shall be clearly identified.

O. Long-Term Liabilities – The City shall evaluate long-term liabilities (debt borrowings, compensated absences, claims and judgments, CalPERS pensions, and other postemployment benefits, etc.) on a case-by-case basis with appropriate deference to the short and long-term cash requirements implicit to the liabilities. The assumptions used to evaluate those liabilities and the short- and long-term cash requirements so budgeted shall be disclosed within the adopted budget.

P. Annual Financial Audit – The City shall publish its annual financial statements, prepared by management in coordination with its external auditors, by at least December 31 of each fiscal year at a public meeting of the City Council. The financial statements shall be presented to the City Council at a public meeting, and implications discussed, each year. The City shall endeavor to achieve audits with minimal auditor “findings.” The City shall swiftly and thoroughly respond, at every level of institutional function, to address any audit findings.

Q. Other Audits and Reviews – The audit and review reports of grantors and other agencies (Los Angeles County MTA, Los Angeles County Community Development Commission, State Controller, Gas Tax Street Report, AQMD, etc.) shall be maintained in the permanent records of the City Manager’s Office.

R. Cost Recovery and Fees for Services – The City shall employ the principles and practices of cost recovery in the preparation and maintenance of its fees for services in a manner consistent with cost of services and cost allocation best practices. In so doing, the City shall maintain its cost allocation and cost recovery methodologies and applications at a level sufficient to achieve uncontested cost recovery and overhead from state and federal granting agencies. The City may periodically contract for professional, third-party calculation and determination of cost allocation, cost recovery, overhead studies, and fees for services determination in order to achieve those objectives.

S. Cost Recovery for Emergency Services – After declaration of an emergency or natural disaster, the City shall employ the principles and practices that record and document expenditures incurred related to emergency responses and natural disasters. In so doing, documentation shall be developed to provide evidence or proof of what happened and what actions were taken. Careful records of expenditures are to be developed including time & labor, materials, and equipment used. Photographs and videos of damage are essential. Submissions for recovery to Federal, State, and County Agencies shall provide an audit trail to prove that work was completed.

T. Risk Management – The City shall maintain a risk management program in order to effectively plan for and mitigate the effects of known and unknown risk and liability. The City shall evaluate joint-powers risk pooling arrangements, pursuant to the California Government Code; arrange and administer programs for effective and efficient self-insurance; appropriately purchase

excess insurance and reinsurance; and arrange for appropriate insurance for property and other lines of coverage. The City Manager shall make an annual presentation at a public meeting of the City Council on the status of the City's risk management program.

U. Grants Management – The City shall maintain a Grant Management Policy that, under the responsibility of each grant operating department project manager, that those managers most efficiently coordinate the various elements of grant applications; grant awards; grant spending and reimbursement; interim and final financial reporting and narrative reporting; and grant closure. The City shall not budget or transact a grant without proof of grant award. In cases of non-compliance with grant requirements, the City Manager may discontinue or suspend grant activities unless or until the operating department project manager achieves compliance with grant requirements.

V. Corporate Technology – The City shall maintain corporate technology (network infrastructure, network applications, network hardware and software, and user hardware and software) sufficient to maintain institutional best practices with an emphasis on network safety and systemic integrity.

W. Pension Obligations – The City shall publish, no less than annually at a public meeting of the City Council, financial reports adequate to inform the City Council of the pension liabilities facing the City and the City's progress in meeting current and future CalPERS pension liabilities. Such reports and discussions shall become part of any on-going or subsequent labor negotiations in an effort to keep the City's proposed budget and three-year financial projection balanced.

X. Other Post-Employment Benefits (OPEB) Obligations – The City shall publish, no less than annually at a public meeting of the City Council, financial condition reports adequate to inform the City Council of the post-employment liabilities facing the City and the City's progress in meeting current and future post-employment liabilities. Such reports and discussions shall become part of any on-going or subsequent labor negotiations in an effort to keep the City's proposed budget and three-year financial projection balanced.

Y. Citywide Financial Policies Adherence – The City shall publish, as a component of its annual budget, and at a public meeting of the City Council, thorough evaluation of its adherence to the Citywide Financial Policies listed herein.

Z. City Management Transitions – Within forty-five (45) days of the appointment of a permanent City Manager, the City shall re-publish, at a public meeting of the City Council, its Citywide Financial Policies, with any amendments made to the Policies as appropriate.

AA. Council and Employee Payments – Employee and Council payroll compensation shall be paid following the normal published payroll cycle. Reimbursements and stipends shall follow the standard accounts payable payment cycle. Emergency and Special Handling payments shall be highlighted on the Warrant Register to ensure transparency. Emergency and Special Handling payments shall require the responsible Department Head and City Manager approvals prior to payment processing.