# City of Steamboat Springs Financial Policies

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# Section I - General Financial Policies

**Accounting and Auditing Policies**:

The City Charter and the Revised Municipal Code of the City of Steamboat Springs, State of Colorado statutes, and federal laws and regulations will be followed wherever they apply to the financial activities of the City.

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.

As stated in the City Charter the fiscal year for the City of Steamboat Springs commences on January 1st and ends on December 31st of each year.

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.

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:

1. Cash Basis – Transactions are recognized only when cash is received or disbursed. This is used for fiduciary funds.
2. Accrual Basis – Transactions are recognized when the economic event occurs, regardless of whether or not cash is received or paid. 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.
3. 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.

<u>Reporting Focus (Budget vs. GAAP)</u> – 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.

1. <u>Budget Basis –</u> The City's interim statements 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 to ensure compliance with the legal requirements as set forth within the Colorado Revised Statutes.
2. <u>GAAP</u> – 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.

<u>Comprehensive Annual Financial Report (CAFR)</u> - A comprehensive annual financial report (CAFR) is prepared covering all activities of the primary government and providing an overview of its discretely presented component units. It contains the following sections:

1. <u>Introductory section</u> - The introductory section includes the table of contents and letter of transmittal.
2. <u>Financial section</u> - The financial section includes:

   a. The independent auditor's report;
   b. Management's discussion and analysis (MD&A).
   c. Basic financial statements:
      i. Government-wide financial statements.
      ii. Fund financial statements.
      iii. Notes to the financial statements.
   d. Required supplementary information (RSI), other than MD&A; and
   e. Combining and individual fund statements and schedules.
3. <u>Statistical section</u>. The statistical section includes additional financial, economic, and demographic information.

**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 City Council and interested citizens.

There are three broad categories of Funds and multiple types of funds that fall under each category as prescribed by Generally Accepted Accounting Principles (GAAP).

1. Governmental funds are used to account for most typical government functions. The acquisition, use, and balances of the state's expendable financial resources and the related current liabilities (except those accounted for in proprietary and fiduciary funds), are accounted for through governmental funds. There are five types of governmental funds:
    a. General Fund – To account for the administrative, public safety, parks, recreation, open space, community development, general services, transit, and public works for the City. Principal sources of revenue consist of sales taxes, franchise fees, vehicle use taxes, licenses and permits, grants, charges for services, intergovernmental revenue, and interest earnings.
    b. Special Revenue Funds – To account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures 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 funds resources but may also include other restricted, committed, and assigned resources.
    c. Debt Service Funds - Used to account for the accumulation of resources that are restricted, committed or assigned for, and the payment of, general long-term debt principal and interest.
    d. Capital Projects Funds – To account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay including the acquisition or construction of capital facilities and other capital assets. Outflows financed by proprietary funds and assets held in trust are excluded. Significant maintenance items such as annual street paving maintenance and parking lot maintenance may be reported in this fund.
    e. Permanent Funds - Used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry.

2. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis.
    a. Enterprise 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 (including depreciation and overhead) 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.
    b. Internal Service Funds – used to account for the provisions of goods or services by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Internal service funds should only be used if the City is the predominant participant in the activity.
3. 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.
    a. Pension (and other employee benefit) Trust Funds - used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.
    b. Investment Trust Funds - used to report the external portion of the Local Government Investment Pool, which is reported by the state as the sponsoring government.
    c. Private-Purpose Trust Funds - used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The resources held under these arrangements are not available to support the government's own programs.
    d. Agency Funds - used to account for resources held by the state in a purely custodial capacity for other governments, private organizations or individuals.

## Internal Control Structure

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

1. Control Environment – an overall attitude and awareness of actions as they influence the City.

2. Accounting System – an effective accounting system that 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.
3. 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 is approved by City Council. Development of new departments, programs, and accounts shall be approved by the Finance Department.

## Auditing

Audits are an important part of the Finance Department. Audits are a way for stakeholders such as City management, citizens of Steamboat Springs, investors, government agencies and City Council to receive an unbiased assessment of the completion and accuracy of the financial statements, strength of internal controls, and adherence to certain laws and policies.

1. Internal Audits – The City of Steamboat Springs Finance Department evaluates the adequacy of financial controls, systems, records, and organizational operations. They provide management and departments an objective analysis and recommendations for improving systems and activities.
2. External Audit – In accordance with the City Charter an annual external audit is performed annually by an independent public accounting firm with the subsequent issuance of a financial report and opinion.
3. 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.

## Transparency:

The City of Steamboat Springs Finance Department strives for transparency in all ways appropriate. The Finance Department will make the following documentation available on the City’s website or in paper copy when requested:

1. Financial Policies

2. Economic Development Policy
3. Annual Budget Book
4. CAFR (Comprehensive Annual Financial Report)
5. Weekly revenue and expenditure reports

**Grant Policy:**

Grants will follow all regulations included in the grant contract. City departments and staff who 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.

1. 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, or;
    e. Adversely affecting public confidence in the grant funded program in particular and the City in general.
2. Intergovernmental Services Department (IGS) – The City has a department that is involved in grant process from beginning to end.
    a. IGS is the only department that may apply for a grant.
    b. IGS must receive copies of all award letters, contracts, and reimbursement requests.
    c. IGS must receive notice from the grant administrator when a grant is completed.
3. 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. 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. 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, ensuring only allowable costs are charged to the grant, 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.

4. 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.
   a. Documentation for all expenditures must be retained for audit purposes and should include:
      i. Timesheets electronically approved by the employee and/or approved by their supervisor for all payroll expenses;
      ii. Purchasing documents for expenditures;
      iii. City, state or federal governmental agreement number;
      iv. Formal bids for all purchases over $50,000;
      v. Detailed receipts or invoices;
      vi. General Ledger showing expenditure activity, and;
      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:
      i. Identify, through 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, and;
      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 Expenditures of Federal Awards (SEFA) will be prepared for the external auditors which include all federal grant expenditures.

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 with the Finance Department that all financial information is correct and copying IGS before submitted to granting agencies.

5. <u>Audit</u> - 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 shall follow up and take corrective action on any and all audit findings.

# Section II - Budget Policies

The City of Steamboat Springs shall follow the budget policies set forth in this document along with Section 9.4-9.10 of the City Charter and State of Colorado statutes in relation to municipal budgeting.

**Budget Calendar, Roles and Responsibilities:**

The City's budget is developed on an annual basis. The City's fiscal year begins on January 1st and ends on the following December 31st. Key milestones are as follows:

1. Budget packages for annual preparation, which include forms and instructions, shall be distributed to City departments no later than June 15th.
2. The City Manager and the Finance Director will present the proposed sales tax budget amount to City Council during the first Council meeting in July.
3. Departments must return their proposals no later than July 15th.
4. The City Manager and the Finance Director review the department budget proposals and meet with the Department Directors individually during the month of August.
5. A preliminary budget meeting with City Council will be held in September to discuss projected revenue and expenditure budgets.
6. The recommended budget is submitted to City Council no later than the first Tuesday in October. All-day public hearing will be held to discuss in detail and allow for public comment.
7. Expenditure budget by fund must be adopted via ordinance prior to December 31st.

**Annual Budget Hearing:**

The City Manager, not fewer than seventy-five (75) days prior to the beginning of the fiscal year, shall submit to the City Council the annual budget covering the next fiscal year (January 1-December 31). The budget including the General Funds, Capital Projects Fund, Special Revenue Funds, Enterprise Funds, and Internal Services Funds shall contain the following information:

1. A letter from the City Manager discussing the proposed financial plan for the next budget year.
2. Budget summaries for all funds that shall include a beginning fund balance, estimated revenues, operating expenditures, capital outlay and ending fund balance.
3. Proposed budgeted personnel expenditures, operating expenditures, capital projects and equipment, debt service expenditures, along with comparisons of estimated current year and prior year actual expenditures.
4. Proposed revenues, by source, for the budget year, with comparisons to current year projected and prior year actual revenues.
5. 6-year Capital Improvement Plan that is reasonably attainable.
6. FTE (Full Time Equivalent) detail by department.

7. City fee schedule.

A public hearing on the proposed budget and proposed capital program shall be held by Council before the final adoption of the same. Notice of the time and place of such hearing shall be posted, and such notice shall be published at least one time at least seven days prior to the hearing and the notice shall state that the purposed budget and capital program are on file in the office of the City Clerk.

**Basis of Budgeting:**

Modified accrual basis of accounting is used for budgeting revenues and expenditures for all funds.

**Budget Control:**

The Finance Director is responsible for maintaining a budgetary control system to ensure adherence to the adopted budget. While the final test of a budgeted department is that it not exceed the expenditure budget in total, Finance staff reviews line item budgets on a weekly basis and requests a budget transfer for any line item that exceeds the budget by more than $1,000.

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, statures, policies, and regulations.

Another aspect of budget control is the process for which budgets can be adjusted.

1. Budget transfers within the same department require approval from the Department Director.
2. Budget transfers within the same department over $2,500 require the approval from the Department Director and the Finance Director.
3. Budget transfers within the same department over $5,000 and budget transfers between departments within the same fund require Department Director's, Finance Director and City Manager approval.
4. Budget transfers between Funds require an ordinance approving a supplemental budget appropriation.

If during the year the Finance Director determines that it is unlikely that the revenue projections will be met the following actions will be taken:

1. Equipment purchases that will not jeopardize the health and safety of the community will be delayed or eliminated.
2. Operating expenditures that will not jeopardize the health and safety of the community will be delayed or eliminated.

3. Personnel expenditures will be reviewed by Management Team and determine what necessary changes need to occur.

**Revenue Budget:**

In order to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and should avoid mid-year service reductions.

1. Grant revenues and expenditures will only be budgeted if there is a reasonable expectation that the grant will be received.
    a. If the grant is not received the budget for the project will be removed and placed in a “discontinued projects” account.
    b. If new grants are received throughout the year the corresponding expenditures will be budgeted via a Supplemental Budget Ordinance.
2. Sales tax revenue will be budgeted by the Finance Director utilizing a conservative approach with a combination of the following mechanisms:
    a. Prior year trends.
    b. Economic outlook for global, national, and local markets.
    c. Analyzing the split between local and tourist sales tax dollars and the factors influencing each.
3. Department revenues including user fees are budgeted by each department in conjunction with the Finance Department.
4. Other revenues are budgeted by the Finance Department.

**Expenditure Budget:**

The City will use zero-base budgeting. Zero-base budgeting is an approach to planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting, departmental managers justify only variances versus past years, based on the assumption that the "baseline" is automatically approved. By contrast, in zero-based budgeting, every line item of the budget must be approved, rather than only changes. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing.

**Balanced Budget:**

A balanced budget is defined as total anticipated revenues must equal or exceed the sum of budgeted expenditures for each fund. The City of Steamboat Springs is committed to achieving a balanced budget within the General Fund under normal circumstances and provide for disclosure when a deviation from a balanced General Fund budget is planned.

1. It is the City's goal to budget the use of only 95% of the projected sales tax annually.
2. General Fund unassigned reserves will be utilized for any capital related transfers to other funds.

This policy is intended to always return funds to the City's reserves for uses as defined in the Fund Balance Policy and to ensure there is not a burden on general operating funds for capital needs.

# Section III - Revenue Policies

## TABOR:

In 1992, the electorate of the State of Colorado passed Amendment One, commonly referred to as the Taxpayer's Bill of Right's (TABOR.). This amendment contains many constraints relative to revenue limitations (base spending limit); the issuance of long-term debt (multi-year obligations); establishing and maintaining emergency reserves (3%); and other limitations.

TABOR restricts the amount of revenue a government can collect based on the amount collected in the previous year. However, based on a vote of the citizens of Steamboat Springs the City has been exempted from the revenue limitations of TABOR. This is commonly referred to as being "de-bruced". While, the City is exempt from this portion of TABOR based on an election held by the City of Steamboat Springs, the City is not exempt from the other regulations within TABOR.

## Revenue Diversification:

The City will strive to attain a diversified and stable revenue system to shelter it from short-run fluctuations in any one revenue source to the best of its ability. However, the City of Steamboat Springs relies heavily on sales tax revenue as the primary revenue. Because it is highly influenced by economic conditions, sales tax tends to be much more volatile than property tax. The City of Steamboat Springs does not currently have a property tax.

To address this inherent volatility, the City will pursue strategies to promote economic development and diversification to strengthen its overall economic base. To this end, the City Council adopted Economic Development Policies.

## Fees and Charges:

Fees and charges will be reviewed and updated on an ongoing basis and evaluated by City Council during the annual budget process. The Finance Department will compile a list of all City fees and charges (excluding municipal court fines) that will be published in the annual budget book. Fees presented in the annual budget will be current; however, fees and charges may be changed at the direction of the City Manager during the budget year.

Enterprise Fund Fees must be set at a rate with the goal of accomplishing cost recovery including operating expenses, overhead, and depreciation. This includes fees within the Airport fund, Utility fund, Iron Horse fund, and Golf fund.

Fee waivers, discounts and other similar items must follow policies and procedures approved by the City Manager. Other funds are encouraged to do the same, however it is important to note that because of TABOR regulations fees cannot exceed the cost to provide the service.

City fees are not waived unless authority is specifically granted via Steamboat Springs Charter or Steamboat Springs Revised Municipal Code.

# Section IV - Expenditure Policies

The City will maintain a level of expenditures that will provide for the health, safety and welfare of the residents of the City of Steamboat Springs.

## Personnel

The City of Steamboat Springs provides a vast variety of services to the citizens of the town. It takes dedicated personnel to carry out the services provided. Knowing that personnel is a key asset of the City we:

1. Commit to maintaining a pay plan where employees are compensated appropriately, and;
2. Have a goal of maintaining a stable workforce.

## Capital Improvement Plan

The Capital Improvement Plan (CIP) of the City is a long-term planning tool intended to allow for prioritization, financing coordination including grant opportunities, and timely design of projects and programs to better serve the citizens of Steamboat Springs.

1. The City's Capital Improvement Plan shall be a six-year plan and updated annually.
2. This 6-year plan will consist only of projects that have a reasonable expectation of being completed.
3. A supplemental list of projects that have been identified as future needed projects but lack funding in the current matrix will be established and presented with the 6-year CIP.

# Section V - Fund Balance

**GENERAL FUND:**

**Categories of Fund Balance as prescribed by GASB 54:**

**Restricted Fund Balance:**

1. **Non-spendable:**
2. **Restricted Fund Balance:**
   - ***TABOR Restricted Reserve***: Article X, Section 20 of the State Constitution requires a reserve of three percent (3%) of fiscal spending for emergencies. The use of this reserve is restricted to the purpose for which it was established and can be used solely for declared emergencies. These emergency reserves are calculated on all City Funds for the operating and capital project funds including: General Fund, Capital Projects Fund, Utility Fund (Wastewater & Water), Airport Fund, Golf Fund, Community Housing Fund, Iron Horse Fund, and Rehder Building Fund and maintained in the General Fund.
   - ***Other Restricted:*** This includes amounts that are restricted due to an outside influence. Generally this is restricted cash required for outstanding bond issuances, grants and donations received but not yet expended.

**Unrestricted Fund Balance:**

3. **Committed**: This classification is comprised of amounts that are constrained by formal action of the City Council for a specific purposed, such as revenues that must be used for a specific purpose based on a formal vote of City Council.
4. **Assigned*:*** This classification is comprised of amounts that are intended for a specific purpose. City Council has the authority to modify the assigned fund balance. This category includes:
   - ***Stabilization Reserve***: It is the goal of City Council to maintain a Stabilization Reserve in the amount of 25% of the prior year's General Fund expenditures.
   - ***Other Assigned***: This includes items that the City Council has agreed to, but it may not have been in a formal vote and can be modified.
5. **Unassigned**: This classification is comprised of residual net resources, in excess of the amounts in the foregoing categories.

**Use of Assigned Fund Balance**:

The Stabilization Reserve is designed for budget stabilization during revenue downturns. This can be used for this purpose as directed by City Council.

**Use of Unassigned Fund Balance**:

The Unassigned Fund Balance is used for one-time expenditures where an ongoing obligation is not created. These one-time payments may include items such as:

- Debt defeasance
- Capital expenditures

- Unexpected one-time expenditures

**CAPITAL FUND:**

As a rule the fund balance in the Capital Projects Fund will fluctuate depending on projects completed. The City will maintain a 6-year capital improvement plan with reasonable expectation of completing it.

**ENTERPRISE FUNDS:**

Enterprise funds must simply cover expenses with revenue, but have a goal of maintaining a fifteen percent (15%) of previous years' operating expenditures as a fund balance.

# Section VI - Investment Policy

The purpose of this Policy is to set specific policy requirements and guidelines for the investment of City funds in a manner that maximizes safety of principal while ensuring that funds are available to meet operating needs of the City and to meet unanticipated cash demands while earning the highest possible return within the parameters established by the Colorado State Statutes.

**Scope:**

This Policy applies to all financial assets over which the City has direct control as well as those funds the City is responsible for a custodian or trustee. These funds are reported in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Capital Project Fund
- Special Revenue Funds
- Enterprise Funds
- Internal Service Fund

**Objectives:**

The City shall manage and invest all cash and assets with three major objectives. These are listed in order of priority:

1. Safety: The primary objective of the City's investment activity is the preservation of principal. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping or erosion of market value. The objective will be to mitigate credit risk and interest rate risk.
2. Liquidity: The City's investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintain additional liquidity for unexpected liabilities.
3. Yield: The City shall earn a competitive market rate of return on available funds throughout budgetary and economic cycles. In meeting this objective, the Finance Department will take into account the City's investments risk constraints and cash flow needs.

All investments shall be managed in a manner responsive to the public trust and consistent with state and local law.

**Delegation of Authority:**

Per the City Charter the City Manager appoints a City Treasurer who is the Finance Director for the City of Steamboat Springs. The Finance Director shall be the "Investment Officer" responsible for investment decisions and transactions. The Finance Director may consult with outside professionals or financial advisors. The Finance Director may appoint the City Controller to assist in performing investment activities.

**Investment Strategy:**

The City may maintain one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio.

# Section VII - Debt Management Policy

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation, and reporting on all debt obligations issued by the City. The City will work within the State Statutory requirements related to debt along with the City Charter.

The City of Steamboat Springs has a goal of maintaining a minimum rating of "AA" from at least one nationally recognized rating agency.

**Use of Long-term Debt Financing:**

Long-term debt financing is appropriate for the acquisition of property or other long-term assets, and for the acquisition, development, construction or renovation of capital facilities, capital projects, capital equipment and infrastructure. Funding recurring operating expenditures is not an appropriate use for long-term debt financing.

The City of Steamboat Springs is prohibited by TABOR to enter into any multi-year fiscal obligations without the prior approval of the majority of qualified electors.

**Types of Debt:**

1. General Obligation (GO) Bonds
    a. GO Bonds must be approved by a majority vote of qualified electors.
    b. GO bonds should be used only for projects clearly benefiting the broad public interest.
    c. Refunding GO bonds for a lower interest rate does not require a vote.
2. Certificates of Participations (COPs)
    a. A lease-financing mechanism where the City enters into an agreement to make regular lease payments for the use of an asset over a specific period, after which the title for the asset transfers to the City.
    b. The lease payments are dependent on an annual appropriation which can be withheld and the lease voided; therefore does not require voter approval.
    c. While the lease can be terminated, such an action would have a significant negative impact on the City's general credit rating.
3. Revenue Bonds
    a. New Money non-enterprise fund (as defined by TABOR) Revenue Bonds must be approved by a majority vote of qualified electors.
    b. TABOR defined enterprise funds may issue Revenue Bonds without an election. The Golf Fund and the Utility Fund are the only funds that are TABOR enterprise funds for the City of Steamboat Springs.
    c. Refunding Revenue Bonds for a lower interest rate does not require an election under TABOR.

**Delegation of Authority:**

Prior to any debt issuance it will be requested that the City Council delegate authority to finalize documents related to the debt issuance to the City Manager. Due to timing issues it is imperative that the authority be delegated in these matters. This will be presented to City Council in the form of an ordinance prior to each issuance of debt.

**Continuing Disclosure:**

The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) concerning primary and secondary market disclosure.

Full disclosure of operations and open lines of communication shall be made to the rating agencies. The Finance Department shall prepare the necessary materials and presentation to the rating agencies.

# Section VIII - Arbitrage Compliance Policy

**PURPOSE:**

The purpose of this post-issuance compliance policy and procedure manual is to adopt policies and procedures to guide the City of Steamboat Springs in meeting the requirements of the Internal Revenue Code of 1986, as amended, and Treasury Regulations (the "Tax Code") concerning tax-exempt and tax-advantaged debt ("debt issuances"). Non-compliance with the Tax Code may result in fines and/or loss of the preferential status of the debt issuances.

**COMPLIANCE OFFICER:**

The City Controller shall be the person primarily responsible for ensuring that the City of Steamboat Springs successfully carries out its post-issuance compliance requirements under applicable provisions of the Tax Code with regard to all debt issuances of the City of Steamboat Springs. The Controller shall be assisted by other City of Steamboat Springs staff and officials when appropriate. The Controller will also be assisted in carrying out post-issuance compliance requirements by contracted entities including Bond Counsel, Financial Advisor, Paying Agent, Trustee, Arbitrage Consultant, and/or other consultants deemed necessary.

The Controller shall be responsible for assigning post-issuance compliance responsibilities to other City of Steamboat Springs staff, Bond Counsel, the Financial Advisor, the Paying Agent, the Trustee and the Arbitrage Consultant. The Controller shall utilize such other professional service organizations as are necessary to ensure compliance with the post-issuance compliance requirements of the City of Steamboat Springs.

## I. GENERAL OVERVIEW OF ARBITRAGE, YIELD RESTRICTION AND REBATE REQUIREMENTS

### A. Overview

The purpose of this section is to introduce the concept of arbitrage and its requirements. There are exceptions to many of the arbitrage rules. Advice from the City of Steamboat Springs Arbitrage Consultant and/or Bond Counsel is strongly recommended before any action is taken.

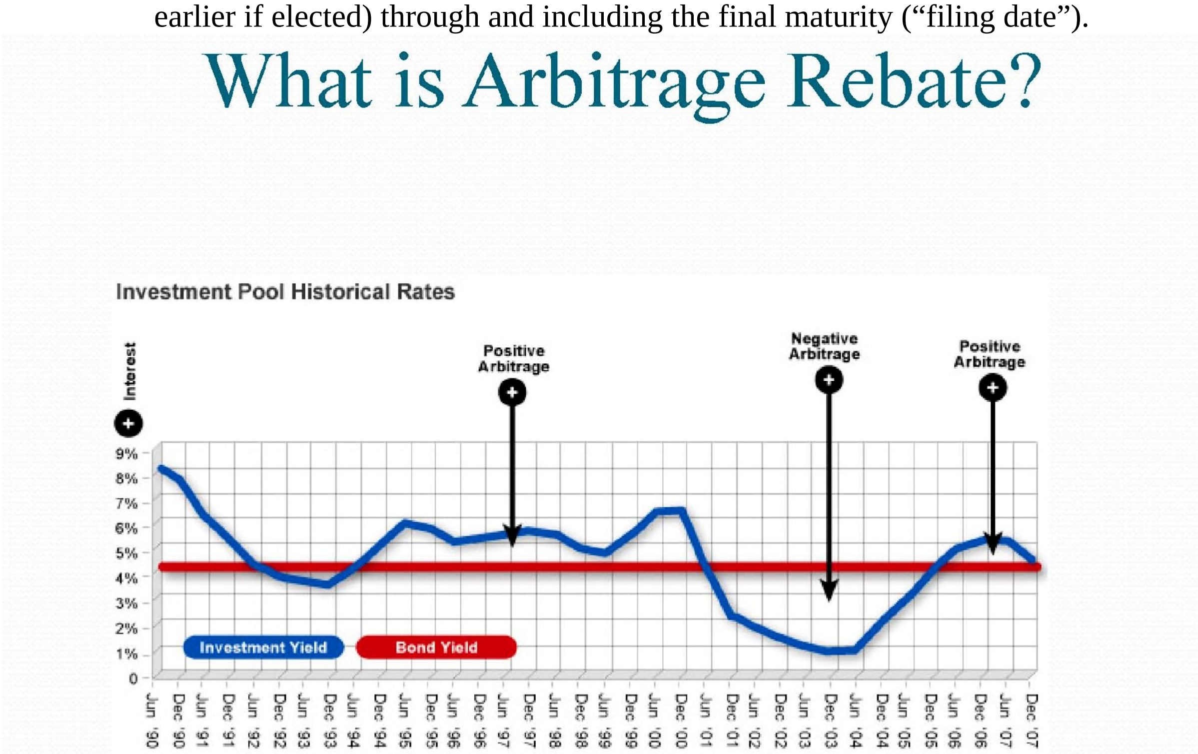
### B. Definition

Arbitrage is the price differential, or profit made, from investing inherently lower yielding debt issuance proceeds in higher yielding taxable investments**.** In other words, arbitrage is the difference between the yield on an issuer's debt issuance and the investment income earned on the proceeds invested in taxable instruments. Arbitrage rebate refers to the positive or negative amount that must be paid (rebated) to the federal government.

| Debt Yield | Overall Investment Yield for Gross Proceeds | Result |
|---|---|---|
| 4.0% | 5.0% | *Positive Arbitrage* |
| 5.0% | 5.0% | *No Arbitrage* |
| 6.0% | 5.0% | *Negative Arbitrage* |

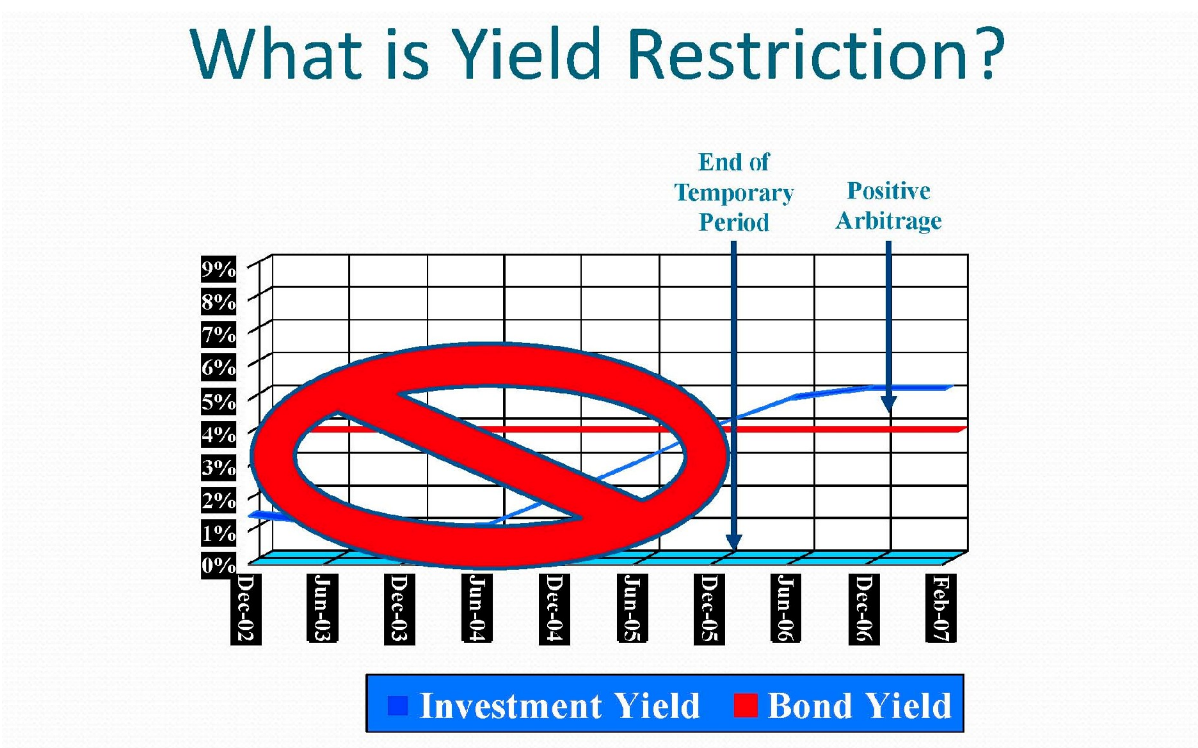
**C. Areas of arbitrage compliance that must be addressed:**

1. The arbitrage rebate requirements identify what must be done with any arbitrage (profits or earnings) above the debt issuance's yield earned on the investment of the gross proceeds of the debt issuance. Arbitrage on gross proceeds must be rebated to the federal government every five years after the date of issuance (or earlier if elected) through and including the final maturity ("filing date").



2. The yield restriction requirements set forth various investment yield limitation conditions for different categories of gross proceeds from a debt issuance (e.g. construction, refunding escrow, debt service, and reserve funds). The issuer should meet these various yield restriction conditions to avoid compromising the tax-exempt or tax-advantaged status of the debt issuance. Since the yield restriction requirements are specific to a debt issuance it is recommended that the City of Steamboat Springs consult with the Arbitrage Consultant and/or Bond Counsel to determine the specific yield restriction requirements on a per debt issuance basis.

   **Construction Fund Yield Restriction:** The most common yield restriction constraint for an issuer is related to construction funds. Generally, if there are unexpended project/construction proceeds at the end of the initial 3-year temporary period in excess of the **minor portion** (the lesser of $100,000 or 5% of the sale proceeds of the debt issuance), an issuer may no longer invest the remaining proceeds above the **materially higher yield** (debt issuance yield + .125%) without taking corrective actions to remedy interest earnings above the materially higher yield. The issuer must yield restrict the proceeds below the materially higher yield, or a yield reduction payment report will be required. Any yield reduction payment under the yield restriction requirements must be paid per the same deadlines as the arbitrage rebate requirements: every five years after the date of issuance (or earlier if elected) through and including the final maturity.



## D. Purpose of the Tax Code regarding arbitrage:

The Tax Code was put into place to minimize the benefits of investing tax-exempt or tax-advantaged debt proceeds, thus encouraging expenditures for the governmental purpose of the debt issuance and to remove the incentive to:

1. Issue debt earlier than needed,
2. Leave debt outstanding longer than necessary, and/or
3. Issue more debt than necessary for a governmental purpose.

## E. Type of debt issuances and funds subject to arbitrage compliance:

1. The following types of debt issuances are subject to arbitrage compliance as of the following dates:

    a. Single Family Debt Issuances 09/25/79
    b. Private Activity Debt Issuances 12/31/84
    c. Student Loan Debt Issuances 12/31/85
    d. Governmental Debt Issuances 08/31/86

2. The following funds and proceeds of a debt issuance are defined as **Gross Proceeds** of a debt issuance:

    a. Project funds
    b. Debt service funds
    c. Costs of issuance funds
    d. Refunding escrow funds
    e. Reserve funds
    f. Disposition proceeds
    g. Replacement proceeds (other than debt service funds)
    h. Transferred proceeds (if an old debt issuance has been refunded by a new debt issuance and the old debt issuance has unspent funds, such funds may transfer to the new debt issuance)

    **Note of Concern:** An often misunderstood concept is that monies received upon closing of a debt issuance are the only monies subject to arbitrage rebate. One of the most common funds found to be subject to arbitrage rebate that is not funded from debt issuance proceeds is the debt service fund. The debt service fund receives a majority of its funding from tax or use revenues.

The debt service fund is required to be included in the arbitrage rebate calculation unless the fund balance is depleted at least once each bond year, <u>except</u> for a reasonable carryover amount not to exceed the greater of:

a. The earnings on the fund for the immediate preceding bond year; **or**
b. One-twelfth of the principal and interest payments on the Debt Issuance or the immediately preceding bond year.

## F. Exceptions to the rebate requirements:

The Tax Code sets forth general arbitrage and rebate requirements for debt issuances. The general rule is that any arbitrage earned must be determined and reported to the federal government every fifth anniversary date after the date of issuance of the debt issuance and on the final maturity, or as elected. Arbitrage rebate is essentially 100% of investment earnings in excess of the debt issuance's yield. There are several exceptions to the arbitrage and rebate requirements, and if any one of these exceptions are met, all or a portion of the debt issuance’s proceeds are not subject to the arbitrage and rebate requirements. Consult with the City of Steamboat Springs’s Arbitrage Consultant and/or Bond Counsel to determine if the debt issuance is eligible for a particular exception, to establish the appropriate investment plan for the debt issuance proceeds, and to assess whether the exception requirements were met.

The purpose of this section is to introduce the concept of spending exceptions and their requirements. There may be special elections and circumstances for a debt issuance that can affect how the exceptions are tested. Advice from the City of Steamboat Springs’s Arbitrage Consultant and/or Bond Counsel is strongly recommended before any action is taken. Below are descriptions of the various exceptions:

1. **6-month spending exception:** If all gross proceeds and actual interest earnings are spent within 6-months after issuance, the interest earned during that period is not subject to the rebate requirements. Intermediate expenditure requirements are necessary (95% by 6 months and 100% within 12 months).

If there are unspent proceeds remaining at the end of the 6-month period, an issuer may still qualify for the spending exception under the following condition:

a. If the remaining amount is 5% or less and is spent within 6 months from the end of the 6-month spending date.

2. **18-month spending exception:** If a debt issuance *does not* qualify as a construction issuance (75% of the debt issuance actually spent on construction) then the debt issuance is eligible for the 18-month spending exception, but *not* the 2-year spending exception. If all gross proceeds and expected interest earnings for the 6-month and 12-month period and actual interest for the 18-month period is spent within 18-months according to a strict timetable, the interest earned during that period is not subject to the rebate requirements. Intermediate expenditure requirements are necessary (15% by 6 months, 60% by 12 months, 100% by 18 months.

   If there are unspent proceeds remaining at the end of the 18-month period an issuer may still qualify for the spending exception under the following conditions:

   a. A reasonable retainage amount of 5% or less is allowed for business purposes and the retainage is spent within 12 months from the end of the 18-month spending date, **or**;

   b. If the remaining amount does not exceed the lessor of $250,000 or 3% of the issue price and due diligence is exercised to complete the project and spend the remaining project/construction proceeds.

3. **2-year spending exception:** If a debt issuance qualifies as a construction issuance (75% of the debt issuance is actually spent on construction) and all gross proceeds and expected interest earnings for the 6-month, 12-month, and 18-month period and actual interest for the 24-month period are spent within 2 years according to a strict timetable, then interest earned during that period is not subject to the rebate requirements. Intermediate expenditure requirements are necessary (10% by 6 months, 45% by 12 months, 75% by 18 months and 100% by 2-years).

If there are unspent project/construction proceeds remaining at the end of the 2-year period, an issuer may still qualify for the spending exception under the following conditions:

a. A reasonable retainage amount of 5% or less is allowed for business purposes and the retainage is spent within 12 months from the end of the 2-year spending date, **or**;

b. If the remaining amount does not exceed the lessor of $250,000 or 3% of the issue price and due diligence is exercised to complete the project and spend the remaining project/construction proceeds.

4. **Small issuer exception:** General taxing authorities reasonably expecting to issue $5M or less in tax-exempt or tax-advantaged debt during each calendar year (cumulative for all debt issuances) may qualify for the small issuer exception to the rebate requirements, *but must still satisfy the yield restriction requirements*. The small issuer exception does not apply to private activity, 501(c)(3) or student loan debt.

   a. General requirements:

      i. The issuer must have general taxing powers.

      ii. The debt issuances must be governmental debt issuances.

      iii. At least 95% of the proceeds must be used for local governmental activities of the issuer or by governmental units located within the issuer's boundaries.

      iv. All tax-exempt or tax-advantaged debt issued in a calendar year cannot exceed $5,000,000.

   b. Additional requirements for refunding debt issuances:

      i. The debt being refunded (old debt issuance) must have qualified for the small issuer exception.

ii. The weighted average maturity of the refunding debt issuance (new debt issuance) must not exceed the weighted average maturity of the refunded debt (old debt issuance). Current refunding debt issuances that have a three year or less weighted average maturity are exempt from the weighted average maturity test.

iii. The refunding debt (new debt issuance) must not mature more than thirty years after the issuance of the original refunded debt (old debt issuance).

*Note – Historically 1/3 of refunding debt issuances (new debt issuances) will fail one of the three rules listed above and become subject to the rebate requirements.*

c. Additional requirements for public school debt issuances:

i. Public school debt issuances issued from 8/31/86 – 12/31/97

$5 Million small issuer exception available

ii. Public school debt issuances issued from 1/1/98 – 12/31/01

$10 Million small issuer exception available: $5 Million can be used for any purpose; the amount that exceeds $5 Million *must* be for new public school construction.

iii. Public school debt issuances issued from 1/1/02 – current

$15 Million small issuer exception available: $5 Million can be used for any purpose; the amount that exceeds $5 Million *must* be for new public school construction.

## II. DUE DILIGENCE REVIEW AT REGULAR INTERVALS

This policy and its related procedures start with a review of the due diligence measures that will take place at regular intervals, as well as each filing date to ensure that each debt issuance is compliant with the requirements of the Tax Code. The City of Steamboat Springs will complete the annual due diligence review every May on all debt issuances.

## III. IDENTIFYING THE CONTROLLER RESPONSIBLE FOR REVIEW

The Finance department is primarily responsible for the administration of this policy. Within the Finance department the Controller will be responsible for the due diligence review. The due diligence review will apply to all debt issuances.

## IV. TRAINING OF CONTROLLER

The Controller has and will continue to take all necessary steps to maintain an adequate understanding of post-issuance compliance requirements relating to the debt issuances for which he/she will review. These steps include, but are not limited to:

- Continued annual training offered by GFOA and CGFOA
- GFOA- Advanced Government Accounting Course in January 2012.
- The City of Steamboat Springs will keep up on future compliance procedures.
- Arbitrage calculations are done by a 3rd party contractor

## V. RETENTION OF ADEQUATE RECORDS TO SUBSTANTIATE COMPLIANCE

### A. General overview

1. **Debt not refunded:** Currently the IRS record retention requirements are to keep all records, data and documents associated with non-refunded debt issuances for three years past the final maturity date for the debt issuance (or longer if required by local or state law.)

2. **Refunded debt:** Since the refunding debt issuance (new debt issuance) is dependent on the tax-exempt or tax-advantaged status of the refunded debt issuance (old debt issuance), all records are required to be maintained for three years past the final maturity of both debt issuances (or longer if required by local or state law).

3. **Electronic data storage requirements:** Electronic records may be stored in an electronic format in lieu of hard copies if certain requirements are satisfied, for example:

   a. The system must ensure an accurate and complete transfer of the hard copy books and records to the electronic storage system and contain a retrieval system that indexes, stores, preserves, retrieves and reproduces all transferred information.

b. The system must include reasonable controls and quality assurance programs.
c. The information maintained in the system must be cross-referenced with the books and records in a manner that provides an audit trail to the source documents.
d. Upon request by the IRS, a complete description of the electronic storage system, including all procedures relating to its use and the indexing system must be provided.
e. Upon request by the IRS, the issuer must retrieve and reproduce hard copies of all electronically stored records.
f. The system must not be subject to any agreement that would limit the IRS' access to the use of the system.

**B. Electronic file storage and backup:** Financial/accounting transactions will be retained in a designated computer file folder labeled as X:\Internal\Debt\Arbitrage Rebate Info and will be backed up by the City of Steamboat Springs IT department. Access to this folder will be restricted as authorized by the Controller.

**C. Storage of hard copies:** A folder jacket, box or other media storage container displaying the debt issuance description will be set up for each debt issuance. The storage container will contain the documents mentioned in Section E on the next page. Access will be restricted to persons authorized by the Controller.

**D. Destruction of records:** A log will be kept of all debt issuances whose records are destroyed after the IRS mandated retention period detailing the debt issuance description, allowable destruction date, date records were destroyed, the Controller's signature authorizing the record destruction, and witness signature. Access to this information will be restricted as authorized by the Controller and stored at City Hall.

**E. Required information to be stored for each debt issuance**

1. **Documents:** Bond Counsel shall send a Transcript for the debt issuance to the Controller. If a Transcript was not compiled, then copies of the following documents will be forwarded or made available to the Controller's office:

   a. Bond Counsel Opinion
   b. Final Official Statement or Private Placement Memorandum
   c. Insurance Documents
   d. Council Certificate for Ordinance
   e. Copy of Ordinance Authorizing Debt Issuance
   f. IRS Form 8038-G, Form 8038-GC, Form 8038, Form 8308-TC or Form 8038-B
   g. CPA Verification Report (for refunding debt issuances only)

h. Non-Arbitrage Tax Certificate or similar document
i. All Debt Service Schedules not included in the Official Statement
j. Letter of Credit Agreement (generally for variable rate debt issuances only)
k. Swap Agreement (generally for variable rate debt issuances only)
l. Winning Bid Forms
m. Trust Indenture
n. Investment Banker's Closing Memorandum
o. Investment Banker's Notice of Delivery Memorandum
p. Investment Banker's Sources and Uses of Funds Memorandum

2. **Reports completed after issuance**

   a. Rebate calculation reports
   b. Yield restriction reports
   c. Spending exception reports
   d. Penalty in lieu of rebate reports
   e. CPA verification report for restructuring of escrow
   f. Payment documentation to include:
      i. Form 8038-T
      ii. Cancelled check
      iii. Proof of mailing
   g. Refund claims
   h. Other reports related to the Debt Issuance

3. **Correspondence**

   a. Bond Counsel
   b. Board Meetings
   c. Financial Advisor
   d. Arbitrage Consultant
   e. Underwriter
   f. Investment Firms
   g. Other correspondence concerning any other aspect of the debt issuance to include but not limited to expenditures, investments, allowable projects, etc.

4. **Investment activity:** Trust statements (or equivalent) with detailed investment activity for the entire computation period for each fund/account in which gross proceeds of the debt issuance were held. Investment information must be recorded on a daily transactional level. This information is required to compute the yield on the investments and to comply with archive requirements. Investment activity details should include such items as:

a. General ledgers
b. Subsidiary ledgers
c. Investment statements (state pools, bank statements, etc.)
d. Type of investment
e. Date of purchase and purchase price
f. Interest rate
g. Interest payment amounts
h. Maturity date
i. Interest payment dates
j. Interest calculation methodology
k. Date of sale and sales price
l. Investment contract information to include:
    i. Evidence of the purchase price paid for investment contract
    ii. Detailed documentation of the investment contract bid process
    iii. Certification by the investment contract provider of fees paid for contract
    iv. All bid solicitation forms (3 bid minimum)
    v. Administrative costs

5. **Expenditure information:** The finance department will capture expenditure information. The following expenditure information must be captured and stored in accordance with the above mentioned record retention requirements to include:

    a. Description of expenditure
    b. Date of expenditure
    c. Amount of expenditure
    d. Invoices
    e. Proof of payment (canceled check, wire information, etc.)

6. **<u>Initial</u> letter of credit information to include:**

    a. Payment amounts
    b. Date of payment
    c. Terms

7. **<u>Actual</u> letter of credit information to include:**

    a. Actual amount paid
    b. Actual date payment is made
    c. Invoices
    d. Statements

8. **<u>Initial</u> swap/hedge agreement information to include:**

    a. Payment amounts
    b. Date of payment
    c. Terms

9. **<u>Final</u> swap/hedge agreement information to include:**

   a. Actual date payment is made
   b. Actual amount paid
   c. Invoices
   d. Statements

10. **Allocation of gross proceeds to expenditures:** Any allocation of gross proceeds to expenditures must involve a current outlay of cash for the governmental purpose of the debt issuance. A current outlay of cash is an outlay reasonably expected to occur within five banking days after the date of an allocation. If expenditure is paid by check, the outlay is the date the check is mailed, provided that it is expected to be cashed in five days.

    a. **Allocation:** Reasonable allocation methods for allocating funds from different sources to expenditures for the **same** governmental purpose include any of the following methods if consistently applied:

       i. The first in, first out/FIFO method permits the City of Steamboat Springs to put the proceeds of more than one debt issuance into a single account (commingle) and treat all expenditures as coming from proceeds of the first debt issuance until they are fully spent.
       ii. The gross proceeds spent first method is used where available funds include, tax revenues, private contributions, etc., in addition to debt issuance proceeds. The debt issuance proceeds are treated as spent first.
       iii. The specific tracing method permits the City of Steamboat Springs to keep proceeds from different debt issuances in separate accounts. Costs may be charged to any debt issuance/checking account at the City of Steamboat Springs's discretion.
       iv. The ratable allocation method permits the City of Steamboat Springs to place proceeds of more than one debt issuance into a single account (commingle) and treat expenditures as coming from proceeds of each debt issuance that contributed proceeds to that account. The expenditures are allocated to each debt issuance ratably based on each debt issuance's proportion of ownership of the account.

    b. **Timing:** An issuer must account for the allocation of proceeds to expenditures not more than 18 months after the later of: the date the expenditure is paid or the date the project, if any, that is financed by the debt issuance is placed in service.

This allocation must be made in any event by the date 60 days after the fifth anniversary of the issuance date or the date 60 days after the retirement of the debt issuance, if earlier. This paragraph applies to debt issuances issued on or after May 16, 1997.

11. **Allocation of investments in a commingled fund:** The Tax Code requires that all payments and receipts on investments held in a commingled fund must be allocated to the different sources/investments in the fund not less frequently than the close of a consistently used fiscal period (not in excess of three months); this allocation must be based on a consistently applied, reasonable ratable allocation. Treasury Reg. Section 1.148-6(e). Currently, the City of Steamboat Springs allocates all payments and receipts monthly.

12. **Qualified use of proceeds, financed property, private business use:** The qualified use of proceeds, property financed, and private business use limitations by the debt issuance should be identified and continually monitored to ensure compliance with the limitations as defined in the debt issuance documents or if more restrictive, state law or the Tax Code's limitations. Supporting documentation is required to support qualified use of proceeds, property financed, and private business use. The Controller will ensure such limitations are in compliance with debt issuance documents or if more restrictive, state law or the Tax Code's limitations.

13. **Issuance price and volume cap allocation:** The issuance price and volume cap allocation activity limitations should be identified and monitored to ensure compliance with the limitations as defined in the debt issuance documents or if more restrictive, state law or the Tax Code's limitations. Supporting documentation is required for issuance price determination and volume cap allocation limitations of the debt issuance. The Controller will ensure such limitations are in compliance with the debt issuance documents or if more restrictive, state law or the Tax Code's limitations.

14. **Fair market value of investments:** The City of Steamboat Springs is to provide information to support that the investments were purchased or sold at a fair value. The City of Steamboat Springs may not purchase an investment at a price in excess of fair market value with gross proceeds of the debt issuance. Nor may the City of Steamboat Springs sell an investment purchased with gross proceeds at a price lower than fair market value. Treasury Regulations Section 1.148-6(c). In dealing with fair market value requirements, the Tax Code specifically provides three safe harbor categories of investments:

    a. Securities traded on an established market from a willing seller in a bona fide arm's-length transaction.

b. Certificates of deposit purchased using a safe harbor under the applicable Tax Code. The safe harbor is available only for certificates that have a fixed interest rate, a fixed payment schedule and a substantial penalty for early withdrawal.
c. Guaranteed investment contracts purchased used a three-bid safe harbor under the Tax Code.

15. **Continuing disclosure:** The City of Steamboat Springs is to provide continuing disclosure, such as annual financial information and material event notices in accordance with SEC rule 15c2-12. The Controller is primarily responsible for undertaking such continuing disclosure obligations and to monitor compliance with such obligations.

## VI. PROCEDURES TO IDENTIFY NON-COMPLIANCE

This policy and its related procedures begin with a review of the due diligence measures that will take place at regular intervals to ensure that each debt issuance is compliant with the Tax Code.

**Date due diligence review completed:** ________________________________

**Person(s)/Contractor(s) completing review:**

Controller:______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Bond Counsel:______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Arbitrage Consultant:______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Financial Advisor:______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Trustee:______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Other:___________ ______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Other:___________ ______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

Other:___________ ______________________ ______________________ ___________________
Name/Title Signature/Date Sections Completed

**Results accepted by:** ______________________ ______________________ ___________________
Name/Title Signature Date

**Date of next due diligence review:** ___________________________________

The following pages contain items that are required to be verified for compliance. For all "no" responses, provide an explanation in Schedule A.

| A. GENERAL OVERVIEW OF ARBITRAGE, YIELD RESTRICTION AND REBATE REQUIREMENTS | Yes/No | Responsibility |
|---|---|---|
| **1. Debt Facts** | | |
| a. Has a debt listing been prepared identifying all debt issuances issued on and after August 31, 1986?<br>Include the following facts:<br>i. Debt issuance description<br>ii. Date of issuance<br>iii. Maturity date<br>iv. Subjectivity to arbitrage rebate<br>v. Subjectivity to project fund yield restriction | | |
| **2. Debt Issuances that are Subject to Arbitrage Rebate** | | |
| a. Have arbitrage reports been completed for each filing date? | | |
| **3. Debt Issuances Subject to Project Fund Yield Restriction** | | |
| a. Have project proceeds been spent before the end of the temporary period for each debt issuance? If no, proceed with question 3.b. below. | | |
| b. Have yield restriction calculations been completed for all filing dates until the project monies were spent below the minor portion?<br>If no, provide the following information on Schedule A:<br>i. End date of temporary period<br>ii. Balance remaining on temporary period end date<br>iii. Balance remaining as date of the review (if known)<br>Explanation of compliance measures taken | | |

| **B. TRAINING OF CONTROLLER AND OTHER RESPONSIBLE PARTIES**<br>Provide the following information for training sessions attended since the last due diligence review. | |
|---|---|
| Name(s) of Attendees: | ________________ ________________ ________________<br>________________ ________________ ________________ |
| Name of Program: | |
| Program Provider's Organization: | |
| Date of Training: | |
| Hours of Training: | |

| **C. RETENTION OF ADEQUATE RECORDS** | **Yes/No** | **Responsibility** |
|---|---|---|
| **1. Retention of Adequate Records in Adherence to Policy Manual Guidelines** | | |
| a. Electronic data storage requirements met? | | |
| b. Electronic file storage and backup requirements met? | | |
| c. Storage of hard copy requirements met? | | |
| d. Destruction of records requirements met? | | |
| e. Document data storage requirements met? | | |
| f. Report storage requirements met? | | |
| g. Correspondence storage requirements met? | | |
| **2. Recording of Financial Transactions in Adherence to Policy Manual Guidelines** | | |
| a. Investment activity recording requirements met? | | |
| b. Expenditure activity recording requirements met? | | |
| c. Allocation of gross proceeds to expenditure requirements met? | | |
| d. Allocation of investments in commingled fund requirements met? | | |
| **3. Qualified Use of Proceeds, Financed Property, Private Business Use** | | |
| a. Have proceeds been properly spent on allowable uses? | | |
| b. Has the financed property been used in accordance with the allowable uses including Private Business Use limitations? | | |
| **4. Issuance Price, Volume Cap Allocation and Private Activity** | | |

| | | |
|---|---|---|
| a. Has the issuance price been identified appropriately according to the requirements of the Tax Code and guidelines stated within the debt issuance documents? | | |
| b. Have the volume cap allocation requirements been satisfied for applicable debt issuances as identified in the Tax Code and guidelines stated within the debt issuance documents? | | |
| c. Have all qualified private activity debt issuances been identified appropriately according to the requirements of the Tax Code and guidelines stated within the debt issuance documents? | | |
| **5. Fair Market Value of Investments** | | |
| a. Have all investments purchased since the last due diligence review qualified under the safe harbor rules for purchasing investments at fair market value? | | |
| **6. Continuing Disclosure** | | |
| a. Have continuing disclosure requirements been met for each debt issuance? | | |

**Schedule A (Exceptions and Explanations)**

## VII. PROCEDURES TO CORRECT NON-COMPLIANCE

If it is determined that the requirements of the policies and procedures set forth herein have been violated or if it is determined that the Tax Code related to each debt issuance has been violated, the City of Steamboat Springs will take the appropriate action described under the applicable Tax Code to remediate such non-compliance.

Such action may include, but is not limited to the following steps:

A. Notify Controller.

B. Notify Bond Counsel, Arbitrage Consultant, and/or Financial Advisors.

C. Resolve non-compliance in a timely manner in order to reduce penalties and late interest. A 60 day resolution period is recommended.

D. Take the appropriate remedial action as advised by Bond Counsel. Remedies may include, but are not limited to:

   1. Enter the Voluntary Closing Agreement Program (VCAP).

   2. Pay all past due arbitrage rebate or yield restriction liabilities to the IRS to include a letter of explanation for late payment, late interest and/or penalties.

   3. Correct non-compliance matter to ensure future compliance.