

RESOLUTION 2020-16

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS, ARIZONA, ADOPTING THE TOWN OF FOUNTAIN HILLS FINANCIAL POLICIES, AMENDED AND RESTATED MAY 5, 2020

RECITALS:

WHEREAS, the Mayor and Council of the Town of Fountain Hills (the "Town Council") approved Resolution No. 2003-14, adopting the Town of Fountain Hills Financial Policies (the "Original Financial Policies") to establish the framework for fiscal planning and management; and

WHEREAS, pursuant to Resolution No. 2003-50, the Original Financial Policies were amended on August 21, 2003 (the "2003 Amended Financial Policies") to include the Town's debt policy as reserved under the Original Financial Policies; and

WHEREAS, pursuant to Resolution No. 2009-05, the 2003 Amended Financial Policies were amended and restated on June 18, 2009 (the "2009 Amended Financial Policies") to incorporate Rainy Day Fund procedures and to make other technical corrections; and

WHEREAS, pursuant to Resolution No. 2010-16, the 2009 Amended Financial Policies were amended on June 17, 2010 (the "2010 Amended Financial Policies") to modify the sales tax revenues allocation for the Capital Projects Fund; and

WHEREAS, pursuant to Resolution No. 2012-02, the 2010 Amended Financial Policies were amended and restated on June 7, 2012 (the "2012 Amended Financial Policies") to adopt financial policies consistent with, and to implement, Governmental Accounting Standards Board Statement 54 ("GASB 54") requirements; and

WHEREAS, pursuant to Resolution 2015-08, the 2012 Amended Financial Policies were amended and restated on March 19, 2015 (the "2015 Amended Financial Policies") to incorporate the Town's separate cash handling policies and to update certain provisions of the Town's debt policy; and

WHEREAS, pursuant to Resolution 2016-31, the 2015 Amended Financial Policies were amended and restated on November 17, 2016 (the "2016 Amended Financial Policies") to clarify the time requirement in which to: (i) transfer excess revenues collected over budgeted and unexpended appropriations from the General Fund to the Capital Projects Fund; and (ii) establish the Town Council's budget adoption as the expression of its intent to commit fund balances for the purpose of GASB 54; and

WHEREAS, pursuant to Resolution 2017-09, the 2016 Amended Financial Policies were amended and restated on April 6, 2017 (the "2017 Amended and Restated Financial Policies") to add a new Chapter 10, Investment/Cash Management Policy, and to make other technical corrections; and

WHEREAS, the Town Council desires to further amend the 2017 Amended and Restated Financial Policies to amend Chapter 3, Fund Balance, and to make other conforming changes.

ENACTED:

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS as follows:

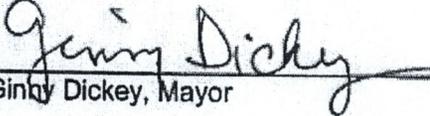
SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. The document known as Town of Fountain Hills Financial Policies, Amended and Restated May 5, 2020 (the "2020 Amended and Restated Financial Policies") is hereby adopted in substantially the form and substance attached hereto in Exhibit A and incorporated herein by reference.

SECTION 3. The Mayor, the Town Manager, the Town Clerk and the Town Attorney are hereby authorized and directed to take all steps necessary to carry out the purpose and intent of this Resolution.

PASSED AND ADOPTED BY the Mayor and Council of the Town of Fountain Hills, Arizona, this 5th day of May, 2020.

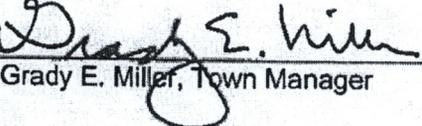
FOR THE TOWN OF FOUNTAIN HILLS:


Ginny Dickey, Mayor

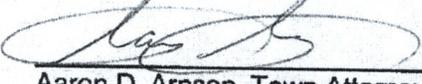
ATTESTED TO:


Elizabeth A. Burke, Town Clerk

REVIEWED BY:


Grady E. Miller, Town Manager

APPROVED AS TO FORM:


Aaron D. Arnson, Town Attorney

**EXHIBIT A
TO
RESOLUTION 2020-16**

[2020 Amended and Restated Financial Policies]

See following pages.

TOWN OF FOUNTAIN HILLS

FINANCIAL POLICIES

Amended and Restated May 5, 2020

Table of Contents

- I. INTRODUCTION..... 1
- II. OVERALL GOALS..... 1
 - 2.1 Fiscal Conservatism..... 1
 - 2.2 Maintaining Bond Rating..... 1
 - 2.3 Stability..... 1
 - 2.4 Delivering Quality Services 1
- III. FUND BALANCE.....1
 - 3.1 Fund Balance Classifications 2
 - 3.2 General Fund..... 3
 - 3.3 Special Revenue Funds..... 6
 - 3.4 Debt Service Funds 6
 - 3.5 Capital Projects Fund..... 6
- IV. FINANCIAL PLANNING..... 7
 - 4.1 Budget Adoption 7
 - 4.2 Budget Preparation..... 7
 - 4.3 Operating Budget..... 7
 - 4.4 Revenue Sources 7
 - 4.5 Revenue Estimate 8
 - 4.6 Staffing 8
 - 4.7 Budget Preparation Schedule 8
 - 4.8 Performance Measurement..... 8
 - 4.9 Efficiency Analysis8
 - 4.10 Department Responsibility. 8
 - 4.11 Quarterly Report 8
 - 4.12 Deficit 8
- V. EXPENDITURE CONTROL.....8
 - 5.1 Budgeted Expenditures..... 8
 - 5.2 Purchasing System and Policies. 9
 - 5.3 Internal Controls 9
 - 5.4 State Expenditure Limit.....9
 - 5.5 Capitalized Assets 9
- VI. REVENUES AND COLLECTIONS 9
 - 6.1 Balanced Revenue Base 9
 - 6.2 Stable Revenue Base 9
 - 6.3 Monitoring Collection 9
 - 6.4 Intergovernmental Aid.....10
 - 6.5 Cost Recovery 10
 - 6.6 Growth Revenues 10
- VII. USER FEE COST RECOVERY.....10
 - 7.1 Establishing Fees10
 - 7.2 Recalculation10
- VIII. CASH HANDLING POLICY 10
 - 8.1 Individual Responsibilities.....11
 - 8.2 Establishing Cash Handling Sites11

8.3	Procedures for Cash Collection.....	11
8.4	Receipts.....	12
8.5	Cash Received in Person.....	13
8.6	Cash Received Through the Mail.....	15
8.7	Check Acceptance.....	15
8.8	Credit Card Acceptance.....	17
8.9	Balancing of Cash Receipts.....	17
8.10	Cash Over & Short.....	18
8.11	Returned Check Procedures.....	19
8.12	Preparation of Deposits (performed by the Finance Division).....	20
8.13	Exceptions to Cash Handling Policy.....	20
8.14	Records Retention.....	20
IX.	DEBT POLICY.....	20
9.1	General.....	21
9.2	Capital Improvement Plan.....	21
9.3	Financing Alternatives.....	24
9.4	Issuance of Obligations.....	25
X.	INVESTMENT/CASH MANAGEMENT POLICY.....	26
10.1	Scope.....	26
10.2	Prudence.....	27
10.3	Objectives.....	27
10.4	Investment Strategy.....	28
10.5	Responsibility and Control.....	29
10.6	Authorized Financial Dealers and Institutions.....	31
10.7	Portfolio and Investment Asset Parameters.....	32
10.8	Collateralization.....	34
10.9	Safekeeping and Custody.....	34
10.10	Internal Control.....	34
10.11	Reporting.....	35
10.12	Investment Policy Adoption.....	35
10.13	Certification.....	36

I. INTRODUCTION

The Mayor and Town Council (the “Town Council”) of the Town of Fountain Hills (the “Town”) understands that principles of sound financial management establish the framework for overall fiscal planning and management. The principles set forth guidelines for both current activities and long range planning. Following these principles will enhance the Town’s financial health as well as its image and credibility with its citizens, the public in general, bond rating agencies and investors. The policies will be reviewed periodically to assure the highest standards of fiscal management. Policy changes will be needed as the Town continues to grow and becomes more diverse and complex in the services it provides, as well as the organization under which it operates, to provide these services to its citizens. The Town Manager and staff have the primary role of reviewing and providing guidance in the financial area to the Town Council.

II. OVERALL GOALS

The overall financial goals underlying these principles are:

- 2.1 Fiscal Conservatism. To ensure that the Town is, at all times, in a solid financial condition, defined as:
 - A. Cash solvency – the ability to pay bills.
 - B. Budgetary solvency – the ability to balance the budget.
 - C. Long run solvency – the ability to pay future costs.
 - D. Service level solvency – the ability to provide needed and desired services.
 - E. Adhering to the highest accounting and management practices as well as the financial reporting and budgeting standards established by the Government Finance Officers Association, by the Governmental Accounting Standards Board (GASB) and by other professional organizations.
- 2.2 Maintaining Bond Rating. To maintain an Aa3 or better bond rating in the financial community to assure the Town taxpayers that the Town government is well managed and financially sound.
- 2.3 Financial Stability. To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the Town’s residents.
- 2.4 Delivering Quality Services. To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.

III. FUND BALANCE

“Fund balance” is defined as the cumulative difference between a fund’s assets and its liabilities. The purpose of this policy is to establish a key element of the financial stability of the Town by setting guidelines for fund balance. It is essential that the Town maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the Town’s general operations. Fund balance is an important indicator of the Town’s

financial position, and adequate reserves must be maintained to allow the Town to continue providing services to the community during periods of economic downturns or emergencies, and/or when unanticipated expenditures occur.

The level of fund balance is related to the degree of uncertainty and risk that the Town faces. A prudent level of financial resources is necessary to protect against the need to reduce service levels due to temporary revenue shortfalls or unanticipated one-time expenditures. With the Town's dependency on local sales tax and State shared revenues, there is increased risk of revenue fluctuations due to the overall condition of the economy. Therefore, the level of reserves needs to be sufficient to ensure stability of governmental operations during a slowdown in the economy or legislative changes to the State's revenue sharing formula.

Fund balance is one of the most widely utilized elements of a government's financial statements. This measure of financial health is used by (1) residents, (2) state, county and local legislators and officials, (3) municipal bond analysts through credit reviews and ratings, (4) taxpayer associations, (5) research organizations and oversight bodies, and (6) reporters.

Other factors that influence the level of fund balance are:

1. Credit reviews performed by municipal bond analysts.
2. Improving or preserving the Town's bond rating.
3. Maintaining a positive trend in historical fund balances.
4. Maintaining a rating equal to or better than surrounding communities.

The Governmental Accounting Standards Board ("GASB") determined that the usefulness and value of fund balance information was significantly reduced by misunderstandings caused by inconsistent treatment and financial reporting practices of governments. As a result, GASB issued a pronouncement, GASB Statement No. 54 ("GASB 54"), which applies to the financial reports of all state and local governments. GASB 54 improved financial reporting by providing fund balance classifications that are more easily understood by the user.

3.1 Fund Balance Classifications. An accounting distinction is made between the various portions of fund balance reported in the Town's financials. The five classifications are:

- (A) **Non-spendable Fund Balance**—Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This amount includes inventory, pre-paid items, and non-current receivables such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).
- (B) **Restricted Fund Balance**—Includes amounts that are constrained for a specific purpose through restrictions either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- (C) **Committed Fund Balance**—Includes amounts that are committed for specific purposes by formal action of the Town Council. Although amounts designated "committed" are not legally restricted like restricted fund balance, these committed amounts cannot be used for any other purpose unless the Town Council removes

or changes the limitation by taking the same form of action it employed to impose the limitation. The action to commit fund balances must occur prior to year-end; however, actual amounts can be determined in the subsequent period.

- (D) **Assigned Fund Balance**—Includes amounts that are intended by the Town to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Town Council itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the Town Council. This assignment would include any activity reported in a fund, other than the General Fund, that is not otherwise restricted more narrowly by the above definitions. The Town is not allowed to assign balances that result in a residual deficit in the fund.
- (E) **Unassigned Fund Balance**—Includes any remaining amounts after applying categories (A)-(D) above (non-spendable, restricted, committed, or assigned). The General Fund is the only fund that will report a positive unassigned fund balance.

3.2 General Fund.

The fund balance of the Town's General Fund may consist of up to five classifications, as described previously. In order to satisfy the objective of maintaining a bond rating equal to or better than surrounding peer communities, a combined fund balance of at least 30% of the average actual General Fund revenues for the preceding five fiscal years is recommended to be kept in the Committed, Assigned, and Unassigned classifications.

- A. **Committed Fund Balance.** The Town will maintain a Committed Fund Balance in the General Fund of 20% of the average actual General Fund revenues for the preceding five fiscal years. The maintenance of this fund balance is a particularly important factor considered by credit rating agencies in their evaluation of the Town's credit worthiness.
- (1) **Stabilization Fund (Rainy Day Fund).** As a component of the General Fund's Committed Fund Balance, the Town will maintain a Stabilization Fund that shall be designated for use in the event of an unanticipated expenditure or loss of revenue. The balance of the Stabilization Fund at the end of any fiscal year will be equal to a minimum of 20% of the average actual General Fund revenues for the preceding five fiscal years.
- (2) **Stabilization Fund Guidelines.** In order to achieve the objectives of this policy, ensure financial stability, and to maintain sufficient operating capital, the following guidelines shall be followed by the Town Council, Town Manager and Town Staff:
- (a) **Increases to Fund.** At the conclusion of the Town's annual financial audit, Town Staff shall determine the amount of revenues received by the General Fund in excess of expenditures and interfund transfers made from the General Fund for the year just audited. Transfers shall then be made as set forth herein until the Fund's balance is equal to at least 20% of the average actual General Fund revenues for the preceding five fiscal years.

- (b) Decreases to Fund. The Stabilization Fund shall be decreased for only one or more of the following purposes and/or under the following circumstances:
 - (i) To replace the loss of more than 25% of the Town's Transaction Privilege Tax revenue or State shared revenues.
 - (ii) For any event that threatens the health, safety, or welfare of the Town's citizens.
 - (iii) For any event that threatens the financial stability of the Town.
 - (iv) To address any matter declared as an emergency by the Governor or the Mayor.
 - (c) Authorization of Use. All decreases in the Stabilization Fund shall be subject to the following:
 - (i) Any decrease shall require the approval by at least 2/3 of the entire Town Council.
 - (ii) The total of all decreases during a fiscal year shall not exceed one-half of the beginning fund balance plus any increases during the same fiscal year.
 - (d) Replenishment Rules. Any amount transferred from the Stabilization Fund shall be replenished as follows:
 - (i) All amounts shall be transferred back to the Fund within five years. At least 20% of the total amount originally transferred from the Fund shall be transferred back to the Fund in each of these five years.
 - (ii) Replenishment transfers shall be appropriated as part of the annual budget process.
- B. Assigned Fund Balance. The Town will maintain an Assigned Fund Balance, in such amounts as deemed necessary by the Town Manager, to systemically accumulate the replacement costs of certain fixed assets. As replacement purchases are made, fund balance will be replenished by charging the owning Department or Division amounts based on the estimated useful life and estimated future replacement value of the fixed asset. Budgeted expenditures of Assigned Fund Balance shall comply with Town policy.
- C. Unassigned Fund Balance. The Town will maintain an Unassigned Fund Balance in the General Fund in an amount equal to 20% of the average actual General Fund revenues for the preceding five fiscal years. Funds in excess of the balances described in the preceding paragraphs will be Unassigned Fund Balance, unless otherwise assigned in accordance with GASB 54. Any revenues collected in excess of expenditures and interfund transfers made from the General Fund will be used to satisfy fund balance requirements first. Any remaining fund balance will be transferred to the Capital Projects Fund.

During the annual budget process, the Town Manager will estimate the surplus or deficit for the current year and prepare a projection of the year-end fund balances by classification. Such projection will include an analysis of trends in fund balance levels on an historical and future projection basis.

The Finance Director is authorized to assign available fund balance for specific purposes in accordance with GASB 54. It is the Town's policy that expenditures for which more than one category of fund balance might be used, Restricted Fund Balance used first, Committed Fund Balance used second, Assigned Fund balance used third, and Unassigned Fund Balance used last.

3.3 Special Revenue Funds.

- A. Streets Fund (HURF). The Streets Fund is used solely for street and highway purposes. The fund is mostly supported by contributions from the State's Highway User Revenue Fund (HURF); however, the Town Council may also direct portions of other revenue sources to the fund in order to meet the needs of the Town's Pavement Management Program. All HURF revenue received is included in Restricted Fund Balance.
- B. Excise Tax Funds. These funds are created by action of the Town Council, either by resolution or during the annual budget process, to track and report activities for a specified purpose. The resources in these funds are classified as Committed Fund Balance.

3.4 Debt Service Funds.

The Debt Service Fund is established for the payment of principal and interest on bonded indebtedness and is classified as Restricted Fund Balance. Revenues may be derived from a property tax levy, pledged excise taxes, municipal property lease payments and shared revenues. Revenues are received in amounts sufficient to pay the annual debt service payment; therefore, the restricted fund balance will be no less than the annual debt service payment due on July 1 of the new fiscal year and no more than the annual debt service payment due on July 1 plus an amount equal to the average annual delinquency factor based on the prior three years' delinquency rates.

3.5 Capital Projects Fund.

- A. Capital Project Fund. A Capital Projects Fund has been established to allow the Town to accumulate monies for: (1) purchase of land or buildings; (2) improvements to Town-owned properties; (3) grant matches associated with capital improvements; (4) public safety projects and equipment purchases; (5) economic development projects; and (6) such other capital projects as determined by the Town Council. The Capital Projects Fund will be funded by: (A) sales of real and personal property belonging to the Town; (B) General Fund transfer of any excess revenues (from the prior fiscal year) collected over budgeted and unexpended appropriations not needed to meet fund balance requirements or re-appropriation; and (C) interest earnings on the balance of the fund invested per the Town's investment policy.
- B. Development Fee Funds. Accounted for separately, but considered part of the Capital Projects Fund, are accumulated development fees collected pursuant to

ARIZ. REV. STAT. § 9-463.05 that are assessed on new construction for the purpose of funding growth. These funds are restricted to growth-related capital expenditures as designated in the Town's adopted Infrastructure Improvements Plan. The fund balance will be established each fiscal year during the budget process depending on planned expenditures but cannot exceed accumulated revenues. The Town shall first be entitled to recoup the cost of any capital improvements, infrastructure, marketing or sales-related costs associated with the disposition of property before crediting the Capital Projects Fund (for funds other than development fees). The Town Council may approve the uses of the Capital Projects Fund as a part of its annual budget or by motion and affirmative vote at the time the expenditures are approved.

3.6 Replacement Funds.

Replacement Funds are established to accumulate the resources necessary to replace vehicles, facility components, information technology, and other equipment at the end of their useful lives. The Town's various Departments and Divisions will incur annual internal service charges, based on their shared usage of the underlying asset, its useful life, and the future value of the replacement's cost. The resources in these funds are classified as Assigned Fund Balance.

IV. FINANCIAL PLANNING

Financial planning refers to the process of identifying resources and allocating those resources among competing purposes. The primary vehicle for this planning is the preparation, monitoring and analyses of the Town's budget. It is increasingly important to monitor the performance of the programs competing to receive funding.

- 4.1 Budget Adoption. The Town Manager shall prepare a proposed annual budget, which shall be submitted to the Town Council and the public for review in accordance with ARIZ. REV. STAT. § 42-17001, *et seq.* The Town will budget revenues and expenditures on the basis of a fiscal year beginning July 1 and ending the following June 30. The Town Council will adopt the budget no later than June 30. By adopting the budget and the various funds set forth therein, the Town Council expresses its intent to commit fund balances for the purpose of GASB 54 classifications. The Town Manager shall execute the Town Council policies as set forth in the finally adopted budget.
- 4.2 Budget Preparation. The Town Manager or authorized designee will prepare a budget in accordance with the guidelines established by the Government Finance Officers Association in its Distinguished Budget Award Program. The proposed budget will contain the following:
- A. Revenue estimates by major category, by major fund.
 - B. Expenditure estimates by department levels and major expenditure category, by fund.
 - C. Estimated fund balance by fund.
 - D. Debt service by issue detailing principal and interest amounts by fund.
 - E. Proposed personnel staffing levels.

- F. A detailed schedule of capital projects, including a capital improvement program.
 - G. Any additional information, data, or analysis requested of management by the Town Council.
- 4.3 Operating Budget. The operating budget will be based on the principle that current operating expenditures, including debt service, will be funded with current revenues, creating a balanced budget. The Town will not balance the current budget at the expense of meeting future years' expenditures; for example, accruing future years' revenues or rolling over short-term debt to avoid planned debt retirement.
- 4.4 Revenue Sources. Ongoing operating costs should be supported by ongoing, stable revenue sources. This policy protects the Town from fluctuating service levels and avoids crises when one-time revenues are reduced or removed. Revenues from growth or development should be targeted to costs related to development, or invested in improvements that will benefit future residents or make future service provision efficient.
- 4.5 Revenue Estimate. The Town Manager will provide an estimate of the Town's revenues annually for each fiscal year, as well as estimates of special (grant, excise tax, etc.) revenues and interfund transfers.
- 4.6 Staffing. The budget will fully appropriate the resources needed for authorized regular staffing. At no time shall the number of regular full-time employees on the payroll exceed the total number of full-time positions authorized by the Town Council. All personnel actions shall be in conformance with applicable Federal and State law and all Town ordinances and policies.
- 4.7 Budget Preparation Schedule. Annually, the Town Manager shall provide a budget preparation schedule outlining the preparation timelines for the proposed budget. Budget packages for the preparation of the budget, including forms and instructions, shall be distributed to Town Departments in a timely manner for the Department's completion. Department Directors shall prepare and return their budget proposals to the Administration Department, as required in the budget preparation schedule.
- 4.8 Performance Measurement. Performance measurement indicators will be integrated into the budget process as appropriate.
- 4.9 Efficiency Analysis. Alternatives for improving the efficiency and effectiveness of the Town's programs and the productivity of its employees will be considered during the budget process. Duplication of services and inefficiency in service delivery should be eliminated wherever they are identified.
- 4.10 Department Responsibility. Department Directors are required to monitor revenues and control expenditures to prevent exceeding their total departmental expenditure budgets. Department Directors shall immediately notify the Town Manager of any exceptional circumstances that could cause a departmental expenditure budget to be exceeded.
- 4.11 Quarterly Report. A quarterly report on the status of the General Fund budget and trends will be prepared within 60 days of the end of each quarter by the Town Manager or authorized designee.

- 4.12 Deficit. If a deficit is projected during any fiscal year, the Town will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using the Rainy Day Fund, to the extent necessary to ensure a balanced budget at the close of the fiscal year. The Town Manager may institute a cessation during the fiscal year on hirings, promotions, transfers and capital equipment purchases. Such action will not be taken arbitrarily or without knowledge and support of the Town Council.

V. EXPENDITURE CONTROL

The Town Manager shall ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with all applicable legal requirements.

- 5.1 Budgeted Expenditures. Expenditures will be controlled by an annual budget at the departmental level. The Town Council shall adopt appropriations through the budget process. Written procedures will be maintained for administrative approval and processing of certain budget transfers within funds.
- 5.2 Purchasing System and Policies. The Town will maintain a purchasing system that provides needed materials in a timely manner to avoid interruptions in the delivery of services. All purchases shall be made in accordance with the Town's purchasing policies, guidelines and procedures and applicable State and Federal laws. The Town will endeavor to obtain supplies, equipment and services as economically as possible.
- 5.3 Internal Controls. Expenditures will be controlled through appropriate internal controls and procedures in processing invoices for payment.
- 5.4 State Expenditure Limit. The State of Arizona sets a limit on the expenditures of local jurisdictions. The Town will comply with these expenditure limitations and will submit an audited expenditure limitation report, audited financial statements and audited reconciliation report as defined by the Uniform Expenditure Reporting System (ARIZ. REV. STAT. § 41-1279.07) to the State Auditor General each year.
- 5.5 Capitalized Assets. All assets of \$10,000 or more will be capitalized and recorded in the Town of Fountain Hills Summary of Capital Assets.

VI. REVENUES AND COLLECTIONS

All government employees are considered stewards of public funds. In order to provide funding for service delivery, the Town must have reliable revenue sources. These diverse revenues must be collected equitably, timely and efficiently.

- 6.1 Balanced Revenue Base. The Town's goal is a General Fund revenue base that is equally balanced between sales taxes, State shared revenues, property tax, service fees and other revenue sources.
- 6.2 Stable Revenue Base. The Town will strive for a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations and in any one revenue source by doing the following:

- A. Establishing new charges and fees as needed and as permitted by law at reasonable levels.
 - B. Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees.
 - C. Aggressively collecting all revenues, late penalties, outstanding taxes owed and related interest as authorized by law.
- 6.3 Monitoring Collection. The Town Manager or authorized designee will monitor all taxes to ensure they are equitably administered and collections are timely and accurate. Fees and charges should be based on benefits and/or privileges granted by the Town, or based on costs of a particular service.
- 6.4 Intergovernmental Aid. The Town Manager or authorized designee should pursue intergovernmental aid for those programs and activities that address a recognized need and are consistent with the Town's long-range objectives. Any decision to pursue intergovernmental aid should include the consideration of the following:
- A. Present and future funding requirements.
 - B. Cost of administering the funds.
 - C. Costs associated with special conditions or regulations attached to the grant award.
- 6.5 Cost Recovery. The Town will attempt to recover all allowable costs (both direct and indirect) associated with the administration and implementation of programs funded through intergovernmental aid. In the case of the Fountain Hills Unified School District, the Town may determine to recover less than full cost of services provided. In the case of State and Federally mandated programs, the Town will attempt to obtain full funding for the service from the governmental entity requiring the service be provided. Allowable costs will be determined based upon a "Cost Allocation Study" prepared periodically.
- 6.6 Growth Revenues. Local sales tax revenues are derived from several sources with a significant portion from construction related activity. To ensure that the revenues from growth or development are targeted to costs related to development, or invested in improvements that will benefit future residents or make future service provision efficient, the Town will designate 50% of those one-time revenues to the Capital Projects Fund. Monthly, these revenues will be transferred from the General Fund to the Capital Projects Fund for future appropriation.

VII. USER FEE COST RECOVERY

User fees and charges are payments for voluntarily-purchased, publicly-provided services that benefit specific individuals. The Town relies on user fees and charges to supplement other revenue sources in order to provide public services.

- 7.1 Establishing Fees. The Town may establish user fees and charges for certain services provided to users receiving a specific benefit. User fees and charges will be established to recover as much as possible the direct and indirect costs of the program or service, unless the percentage of full cost recovery has been mandated by specific action of the Town Council. It is recognized that occasionally competing policy objectives may result in

reduced user fees and charges that recover a smaller portion of service costs.

- 7.2 Recalculation. Periodically, the Town will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other attendant costs.

VIII. CASH HANDLING POLICY

Collecting and controlling cash at the Town are very important functions. The Customer Service Representatives and Permit Technicians are the Town's cash handling agents. Strong internal controls for cash collection and handling are necessary to prevent mistreatment of Town funds and to safeguard and protect employees from unwarranted charges of mishandling funds.

Historical practices shall not constitute justification for deviation from these procedures. The material contained in this Section supersedes any previous policies and procedures regarding the handling of cash followed within the Town and/or within Departments. The Finance Division will conduct periodic reviews of cash handling procedures. Any amendments to the policies require Town Council approval, but the Town Manager may make interpretations and exceptions to the policies contained in this Section as more particularly set forth in Subsection 8.13 below.

- 8.1 Individual Responsibilities. All cash transactions are to be processed by Town staff (including cash, credit cards, checks, etc.) and not volunteers. Any Department Director or manager with responsibilities for managing Town cash receipts and those employees who are entrusted with the receipt, deposit and reconciliation of cash for Town-related activities shall be responsible for knowledge of and compliance with this Section VIII. A reference to this Section should be included as part of all departmental policies and procedures.

- 8.2 Establishing Cash Handling Sites. Ideally, from a control perspective, collecting and controlling cash should be centralized in one location; however, that is not always possible or practical. As a result, the collection of money is, in part, decentralized. The Finance Division must authorize all cash handling sites, including one-time requests for cash for special events. Departments requesting status as a cash handling site (or special events where money is being collected and a cash float is needed) must submit a request to the Finance Division at least 24 hours prior to the special event that includes:

- A. Reason(s) why cash handling site or cash float is needed.
- B. A list of the personnel involved with the cash handling site, descriptions of their duties and how segregation of duties will be maintained.
- C. Whether a change drawer will be needed.
- D. A description of the reconciliation process, including frequency of reconciliation.
- E. A description of the process for safeguarding cash until it is deposited.
- F. A schedule of how often and where cash deposits will be made.

- 8.3 Procedures for Cash Collection.

- A. "Cash" is defined as any of the following accepted methods of payment for Town transactions:

- (1) Cash (U.S. coin and currency).
 - (2) Checks (drawn on U.S. banks and made payable to the Town; no third party checks).
 - (3) Credit Cards (MasterCard, Visa, Discover, American Express).
 - (4) Money Orders.
- B. Cash should be physically protected through the use of vaults, safes, cash registers, etc. Each Department is responsible to make the necessary provisions to properly safeguard the cash receipts in its area and maintain the necessary safe or vault that will ensure the security. Generally, any amount of cash on hand must be maintained in a vault or heavy safe (one which cannot be easily moved by two persons using a hand cart). Cash should not be retained in desk drawers or standard file cabinets without a locking mechanism; petty cash must be secured in a locked file cabinet and keys should be secured separately.
- C. The cash drawer should be kept shut when not in use and after each transaction. The cash drawer, when open, should not be left unattended when it contains money. The contents of cash drawers should be placed in a safe, vault, or an approved, locked location after each day; all safes are to be kept locked.

8.4 Receipts.

- A. Procedures must be in place to record the daily beginning and ending receipt numbers of the cash register, and include safeguards to prevent manipulation of register totals, receipt numbers, etc. Automatic numbering of receipts through a computerized system is an acceptable alternative.
- B. Receipts should be generated from either receipt books or cash register receipt system.
- C. Cash registers must be programmed to issue receipts, which shall contain all information required by the accounting system to properly credit and track payments.
- D. Receipt books, if issued for special events, must be issued in sequential order. All books should be accounted for from the time of delivery and returned to the Finance Division.
- E. Only those receipt books that have been distributed by the Finance Division may be used.
- F. At a minimum, sequential, pre-numbered receipt forms must contain the following information:
 - (1) Date issued.
 - (2) Cashier and/or Department issuing the receipt.

- (3) Name of payor (not the department name or revenue source).
- (4) Sufficient information to identify the purpose of the payment.
- (5) Form of payment (cash, check, credit card, etc.).

G. The receipt forms should also:

- (1) Contain all available identifying numbers and other pertinent, descriptive information including invoice numbers.
- (2) Be issued in a minimum of two copies, one for the payor and one to accompany the deposit.
- (3) Never be altered; if any type of change is necessary, all copies of the receipt must be clearly marked "void" and a new receipt issued.
- (4) Be filed sequentially and retained by the Department (including void receipts).

8.5 Cash Received in Person.

- A. When a customer produces a mutilated bill (where a portion is missing), the receiver should request that the customer have a bank redeem the bill. No bill will be considered for acceptance if both serial numbers are not present.
- B. A printed receipt must be issued for each payment received when the customer pays in person. At a remote location (for special events), manual pre-numbered receipts may be used when cash register receipts are not available.
- C. Departments may not accept post-dated checks, IOU's, or third party checks.
- D. All cash received must be recorded through the computerized accounting system with computer-generated official Town cash receipts. When a cash handling site with a computerized accounting system has to use temporary cash receipts, those temporary receipts must be converted over to computerized receipts as soon as possible. If the conversion cannot be accomplished within 48 hours, the cash should be deposited into the Department's safe and tracked in detail until it is recorded on the computerized accounting system.
- E. The customer must be presented an official Town receipt form with a duplicate record being retained by the receiving Department. All numbered receipts must be accounted for, including the original of voided receipts.
- F. The cash handling site must maintain a clear separation of duties. An individual should not have responsibility for more than one of the cash handling components: collecting, depositing, disbursement and reconciling.
- G. The procedures below are to be followed to safeguard the employee and the cash:

- (1) Account for cash as soon as it is received – count the cash in front of customer.
- (2) Keep cash received in view of the customer until the transaction is complete.
- (3) If change is required, count all cash and change in front of customer.
- (4) Reconcile the funds received to the computerized accounting system cash report or to the total of the temporary receipts at the end of the day or at the end of each shift and balance the receipts as set forth in Subsection 8.9.
- (5) Immediately place all cash in a cash drawer, safe or other secure place until deposited. A secure area for processing and safeguarding funds received should be provided and restricted to authorized personnel.
- (6) Personal transactions with Town cash funds are prohibited. Monies may never be borrowed nor loaned from cash funds, nor may personal checks be cashed from receipts.
- (7) All employees paying for Town services (rentals, movie tickets, animal license, business license, etc.) must be rung up by a different employee under a separate user ID.
- (8) Deposit all cash intact and not intermingled or substituted with other cash.
- (9) Pay refunds or expenditures through the appropriate Town bank account on a Town-generated check from the main accounts payable account for the smaller accounts. If the original payment was made using credit/debit card, then whenever possible refunds will be issued through the credit card per credit card regulations.
- (10) Provide printed receipts generated by the financial system for every transaction involving money.
- (11) Voided cash receipts must be approved and initialed by a supervisor before the daily deposit is done, noting the reason for voiding the transaction.
- (12) Deposit daily cash report and cash promptly at the end of each day into the Finance Division safe.
- (13) Place cash in amounts over \$500.00 in the Finance Division safe immediately following the transaction until the end of day close out.
- (14) Cashiers should enter transactions using their personal logins (switch user) during a single shift.
- (15) All packaged coin or strapped currency received as payment should be removed from the package or straps and verified.

- H. Cashing checks from Town deposits, borrowing cash for personal use, lapping receipts to cover shortages in cash receipts, withholding checks for deposit in order to float checks, commingling personal and Town funds and modifying cash records are all serious offenses and may result in discipline up to and including immediate discharge from employment.

8.6 Cash Received Through the Mail.

- A. When mail is opened, if the cash received is not credited directly into the appropriate Town account or issued a receipt through a computerized accounting system, a log of the checks, credit card transactions and or cash should be prepared and submitted to the Finance Division. The log should include the customer's name, amount received, check number and any other information available that may assist in proper allocation of the funds. The envelope also should be retained as part of the records.
- B. When mail is opened, checks must be endorsed promptly with a restrictive endorsement stamp. Checks must be stored in a safe or other secure place approved by the Finance Division until deposited.
- C. Unidentified receipts must be deposited to a depository account approved for such purposes. All reasonable attempts should be made to identify the correct account and transfer the funds.

8.7 Check Acceptance.

- A. The Federal Reserve has established a regulation to standardize check endorsements:
 - (1) Checks must be made payable to the Town of Fountain Hills and endorsed promptly with a restrictive endorsement stamp payable to the Town of Fountain Hills. The endorsement stamps must be distributed by the Finance Division; this stamp protects the check if lost or stolen.
 - (2) All depositor's endorsements are limited to the top 1.5 inches on the back side of the check, at the trailing edge of the check. This area is where endorsements are normally placed. If you look at the face of the check, the endorsement area is directly behind where "Pay to the Order of" is printed.
 - (3) Any check that has been endorsed may not be returned to the customer. Any marks below the 1.5 inches on the check may obscure the bank routing number, cause delays in returning checks, and forfeit the Town's right to recovery. The purpose of this regulation is to speed collection and returns.
 - (4) The endorsement must include the following:

FOR DEPOSIT ONLY
TOWN OF FOUNTAIN HILLS
[Account Number]

- (5) Checks should have the customer information pre-printed on the face of the check. Bank issued/generated checks are acceptable.
 - (6) Personal checks from employees for cash may not be cashed at any counter in a Town facility.
 - (7) Checks or credit card transactions will not be cashed or processed for more than the amount of purchase. Departments are not authorized to return currency to the payor in the event that the check exceeds the amount due to the Town.
- B. Be sure that the name, branch, city and state where the drawer's bank is located is printed on the check.
- C. The Town will not accept a check that is:
- (1) Illegible or not written out clearly; checks should be written out in blue or black ink only.
 - (2) For anything other than the exact amount (no change will be given).
 - (3) A third party check (that is, checks made out to someone other than the Town).
 - (4) Altered or changed.
 - (5) Undated, post-dated or stale dated (older than six months).
 - (6) Not signed.
 - (7) A starter check, i.e. a check without the name, address and check number on the face of the check.
 - (8) Not in U.S. funds.
 - (9) From a foreign bank, even if payable in U.S. funds.
 - (10) Transfer checks.
- D. If the written amount on a check does not match the numerical amount, the written amount will govern.
- E. Money orders should be filled out by the customer in the presence of Town staff; the customer must countersign and write Town of Fountain Hills in the payee section.

8.8 Credit Card Acceptance.

- A. Credit cards accepted are Visa, MasterCard, Discover and American Express.
- B. When presented with a credit card, the Department cashier shall:

- (1) Verify that the card has not been altered and is not expired.
- (2) Check customer identification to verify that the name on the card and the account name are the same, unless someone is paying for other family members.
- (3) Retain the credit card until the transaction is complete.
- (4) Enter the credit card transaction by swiping the card through the terminal on the keyboard; if the keyboard does not have a terminal, the swipe reader is not functioning or payment is being taken over the telephone, the credit card number should be entered manually when prompted.
- (5) If the credit card information is being input from a paper registration form that includes the card number and payor signature, shred or permanently mark over the portion of the form that includes the credit card information as soon as the transaction is complete and the card is accepted.
- (6) If receiving credit card information over the phone, verify the caller's name as it appears on the card, verify the amount to be processed, enter the credit card number, expiration date and security code directly; immediately shred any piece of paper where the information can be viewed or taken.

8.9 Balancing of Cash Receipts.

- A. All funds collected must be balanced daily, by mode of payment, by comparing the total of the cash, checks and credit cards to the computerized accounting reports, to the manual receipts totals, including the totals of the money received by mail. All cash receipts and supporting documentation (daily deposit slip, system receipts, and system reports) should be transferred daily to the accounting system and all discrepancies should be resolved before the end of the day/shift.
- B. Daily cash counts and reconciliations will be performed on a random basis by the Accountant or other senior Finance Division staff member. These reconciliations should be signed and dated by the reviewer. The total monthly receipts should be balanced with the monthly bank account statements and accounting system monthly reports and all discrepancies should be resolved.
- C. Currency and coin must be reconciled separately from checks, credit cards and money orders by comparing actual cash received to the cash total from the cash report or to the sum of the cash sales from the manual receipts.
- D. Over/short amounts must be separately recorded, investigated and resolved to the extent possible as set out in the over/short portion of this Section.
- E. Because balancing can be a time-consuming task and requires attention to detail, it is recommended that each cashier pre-balance his/her own drawer periodically during the day.

NOTE: On the rare occasion that a check needs to be forwarded to another party by the Town of Fountain Hills, the check cannot be endorsed. Any of the following

positions are authorized to approve this receipt without endorsement: the Town Manager, the Finance Director and the Town Clerk. Approval to accept this instrument in this manner requires approval from one of the Town's authorized signatories in writing prior to the presentation of the instrument.

- F. End of day close out process for cash collection points includes the following:
- (1) Two signatures on the daily cash report before depositing in the Finance Division safe.
 - (2) Total deposit must match the printed report from the software program.
 - (3) Deposits are turned in daily and deposited in the Finance Division safe by the responsible party.

8.10 Cash Over & Short.

- A. A daily accounting of cash received should be balanced against the total amount on the daily reports run by the Department. Any amount that is over or short shall be reported on the same day to the Department Director and the Accountant.
- B. The discipline procedures set forth below should be followed if the established dollar limits and frequency of overages and/or shortages are exceeded. The current established dollar limit is five dollars. A log should be established to record any overages and shortages, and the employee's name and date. Patterns, frequencies and inconsistencies should be noted on the employee's performance review. Overages or shortages of \$50.00 or more are to be reported to the Finance Director.
- C. Warnings or exceptions involving cash overages or shortages shall be retained in the employee's permanent file.
- D. If the shortage is the result of a suspected or documented theft, the shortage must be reported immediately and in writing to the Accountant, the Finance Director and the Town Manager who will submit to law enforcement for investigation, regardless of amount.
- E. Employees who handle cash are expected to be careful and accurate and to balance their funds each day without overages or shortages. Failure to follow internal controls and checks and balances as approved by the Finance Division is considered to be at least negligence and could be considered misconduct subject to the following disciplinary procedures:
- (1) Verbal Warning. A verbal warning will be given if an employee has:
 - (i) Two or more over/shorts in any 90-day period (regardless of the amount).
 - (ii) Cumulative over/shorts of \$75.00 or more in any 30-day period.

(2) Written Warning.

- (i) After an employee has received two verbal warnings, the third warning will be in the form of a written warning. A fourth warning will be subject to disciplinary action as determined by the Department Director.
- (ii) A written warning will be issued if an employee exceeds a cumulative total of \$100.00 or more cash short in any month regardless of the number of verbal warnings.

8.11 Returned Check Procedures.

- A. Any checks returned by the Town's depository bank as uncollected shall be sent to the Finance Division. Examples of returned checks include: non-sufficient funds (NSF), account closed, payor's signature missing, refer to maker and post-dated or stale-dated checks.
- B. When a check is returned, the Finance Division prepares a negative entry to the revenue journal, debiting the originating account for the amount of the check and at the same time assessing a service fee in the amount set forth in the Town's adopted fee schedule. It is the responsibility of the Department that was credited with the revenue to notify the check writer and use due diligence to collect the amount of the check and the service fee. The check writer will be prohibited from receiving Town services until the Town is paid the full amount, plus the returned check fee. Restitution should be in the form of currency, money order, cashier's check or certified check. The Finance Division will maintain an aging report on all non-collectable items; this report will be submitted monthly to the Finance Director.
- C. When restitution is obtained, the same account should be used that was used on the negative entry and the deposit should be transferred to the Customer Service Representative for inclusion in the daily deposit.
- D. If after proper due diligence is performed, collection has not been made, the Accountant may be consulted regarding returned items that remain uncollected for further action through the State.

8.12 Preparation of Deposits (performed by the Finance Division).

- A. The Finance Division shall prepare all deposits.
- B. All checks must be made payable to Town of Fountain Hills and endorsed. A calculator tape of the checks should be included with the checks bundled together.
- C. Cash must be recorded on the deposit slip in the appropriate space.
- D. Only depository-issued deposit slips, including the appropriate account number(s) and sub-code(s) are to be used.
- E. Someone not involved with collecting the cash, opening the mail or reconciling the deposit must prepare the deposit.

- F. Deposit from the Municipal Court should be secured in locking deposit bags, which are available from the bank.
- G. Trips to the bank should be at random times during each day.

8.13 Exceptions to Cash Handling Policy.

- A. Any exception to this Section **must** be approved in writing by the Department Director and requires the concurrence of the Finance Director. For example, in cases where there is not enough staff available to maintain complete separation of duties, an alternate process to safeguard Town funds must be established and approved by the Finance Director. Requests for exceptions to these procedures must be submitted to the Finance Director in writing.
- B. Town personnel are prohibited from depositing Town cash into checking or other bank accounts unless the account has been set up by the Finance Division.

8.14 Records Retention. All cash receipts and related documents must be maintained in accordance with Records Retention Schedules pursuant to ARIZ. REV. STAT. §§ 39-101 through 39-103 and 41-151.15 through 41-151.19. Accounting reports, deposit slips, credit card receipts, copies of manual cash receipts, etc. should be kept for the period specified by the Records Retention Schedules.

IX. DEBT POLICY

The purpose of this debt policy is to provide for the preservation and enhancement of the Town's bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument covenants and provisions and required disclosures to investors, underwriters and rating agencies. The Town's overall debt management policy is to ensure that financial resources are adequate in any general economic situation to not preclude the Town's ability to pay its debt when due.

These policies are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, State Statutes, Federal tax laws and the Town's current bond resolutions and covenants.

9.1 General.

- A. The Town will (1) use current revenues to pay for short-term capital projects, repair and maintenance items and (2) reserve long-term debt for capital improvements with useful lives of ten years or more. The Town will not use long-term debt to fund current governmental operations and will manage its cash flow in a fashion that will prevent any borrowing to meet working capital needs. However, exclusive reliance upon "pay-as-you-go" funds for capital improvements requires existing residents to pay for improvements that will benefit new residents who relocate to the area after the expenditure is made. Financing capital projects with debt provides for an "intergenerational equity," as the actual users of the capital asset pay for its cost over time, rather than one group of users paying in advance for the costs of the asset. Where there is a benefit to all future residents, debt financing should be given consideration.

- B. To increase its reliance on current revenue to finance its capital improvements, and promote a “pay-as-you-go” philosophy, the Town will allocate each year a percentage of current revenues to maintain a minimum 10% of average actual General Fund revenues for the preceding five fiscal years in the assigned fund balance.

9.2 Capital Improvement Plan.

- A. As part of the budget process each year, the Town Manager or authorized designee will prepare a capital spending plan that provides a detailed summary of specific capital projects for the five fiscal years subsequent to the fiscal year presented. The plan will include the name of the project, project schedule, capital cost by fiscal year and a recommended specific funding source. The five year capital improvement plan will be developed within the constraints of the Town’s ability to finance the plan.
- B. The Town Manager and Department Directors will develop formal ranking criteria that will be used in the evaluation of all capital projects. The ranking criteria will give greatest weight to those projects that protect the health and safety of its citizens. “Pay-as-you-go” project financing shall be given the highest priority. Capital improvements that must rely upon debt financing shall be accorded a lower priority and projects with a useful life of less than ten years shall not be eligible for inclusion in bond issues except in extraordinary circumstances.
- C. Lease-purchase financing shall be undertaken only when the project is considered essential to the efficient operation of the Town or to remove expenditures that would exceed the State-imposed expenditure limitation. The Town Manager or authorized designee shall be responsible for ensuring that “pay-as-you-go” expenditures do not cause the State-imposed expenditure limitation to be exceeded in any fiscal year.
- D. All capital project requests will be accompanied by a description of the sources of funding to cover project costs. Where borrowing is recommended, a dedicated source of funds to cover debt service requirements must be identified. All capital project requests will be required to identify any impact the project may have on future operating costs of the Town. The Town will seek grants to finance capital improvements and will favor those projects that are likely to receive grant money.
- E. All capital project appropriations and amendments to the capital improvement plan must be approved by the Town Council.
- F. The capital plan will include all equipment and facilities with a useful life of greater than ten years and a cost greater than \$50,000. Debt financing shall not exceed the useful life of the infrastructure improvement or asset.
- G. The following steps shall be used to prepare the Capital Improvement Program (“CIP”):
 - (1) Establish Capital Improvement policies, including:
 - (a) Time period the CIP will cover.

- (b) Facilities/equipment that will be included in the CIP.
 - (c) How acquisition of multiple items (e.g., computers) will be treated.
 - (d) Identification of projects that are expected to be undertaken, but fall outside the time horizon of the plan.
- (2) Adopt standards to rank project requests.
- (a) Projects that address a public health or safety concern are given top priority.
 - (b) Projects mandated by a court of competent jurisdiction or a government with authority over the Town are equal with public health or safety.
 - (c) Major maintenance (preservation of assets).
 - (d) Replacement of obsolete equipment (improving efficiency).
 - (e) Expansion to meet demand caused by growth.
 - (f) Coordination of projects to achieve cost savings.
 - (g) Availability of cash to finance improvements from current revenues.
 - (h) Acquisition of open space.
- (3) Perform and maintain a capital inventory and identify useful life.
- (4) Identify projects.
- (a) Status review of previously approved projects.
 - (b) Identification of new projects.
 - (c) Assess capital project alternatives.
 - (d) Complete project request forms.
- (5) Assess funding sources.
- (a) Available grants.
 - (b) Development fees shall be utilized to fund capital projects before “pay-as-you-go” and bond issuance financing.
 - (c) Developer contributions.
 - (d) Private contributions.

- (e) Issuance of securities.
- (f) Capital leases.
- (6) Approve the CIP and Budget.
 - (a) Town Council review.
 - (b) Public hearing.
 - (c) Adoption of the CIP and capital budget.

All capital project requests will be accompanied by a description of the sources of funding to cover project costs. Where borrowing is recommended, the source of funds to cover debt service requirements must be identified. All capital project requests will be required to identify any impact the project may have on future operating costs of the Town.

Department Directors will submit detailed descriptions of the useful life of capital projects submitted in conjunction with the preparation of the Town's CIP. The Town Manager shall incorporate an estimate of the useful life of proposed capital improvements in developing an amortization schedule for each bond issue. If a short-lived asset or project (less than ten years) is

included in a bond issue then the bond amortization schedule shall be adjusted to reflect the asset's rapid depreciation. At no time shall the amortization exceed the life of the asset.

9.3 Financing Alternatives.

- A. Financing alternatives include, but are not limited to:
 - (1) Grants.
 - (2) Developer Contributions.
 - (3) General Obligation ("GO") Bond – requires voter approval, supported by an ad valorem (property) tax.
 - (4) Revenue Bonds – repaid with dedicated revenue source (HURF, revenue generated by project).
 - (5) Municipal Property Corporation ("MPC") Bonds – repaid with a dedicated revenue source.
 - (6) Community Facilities District ("CFD") or Special District Bonds – supported by an ad valorem property tax, revenues of the district or assessments of the cost of public infrastructure or enhanced municipal services.
 - (7) Capital Leases – repaid within operating budget.
 - (8) Commercial Paper (CP) or Bond Anticipation Notes (BAN) with terms less than two years.

- B. Town debt service costs (GO Bonds, Revenue Bonds, MPC Bonds, Leases) shall not exceed 20% of the Town's operating revenue in order to control fixed costs and ensure expenditure flexibility. Improvement District, CFD and Special District debt service is not included in this calculation because it is paid by district property owners and is not an obligation of the general citizenry. Separate criteria for CFDs have been established and included within the Town's CFD policy.
- C. The Town shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
- D. Where applicable, the Town will structure GO bond issues to create level debt service payments over the life of the issue. The goal will be to strive for a debt repayment schedule to be no more than 15 years; at no time will the debt exceed 25 years.
- E. Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 3% of the principal amount of the bonds being refunded, or if savings exceed \$750,000, or for the purposes of modifying restrictive covenants or to modify the existing debt structure to the benefit of the Town. Refinancings undertaken for other reasons should proceed only when the advantages have been clearly shown in a cost/benefit analysis of the transaction.
- F. The Town will seek to maintain and, if possible, improve the current bond rating in order to minimize borrowing costs and preserve access to credit.
- G. An analysis showing how a new issue combined with current debt impacts the Town's debt capacity and conformance with Town debt policies will accompany every future bond issue proposal. The debt capacity analysis should reflect a positive trend and include:
 - (1) Percent of debt outstanding as a percent of the legal debt limit.
 - (2) Measures of the tax and revenue base.
 - (3) Evaluation of trends relating to expenditures and fund balance.
 - (4) Debt service as a percentage of assessed valuation.
 - (5) Measures of debt burden on the community.
 - (6) Tax-exempt market factors affecting interest costs.
 - (7) Debt ratios.
- H. MPC and contractual debt, which is non-voter approved, will be utilized only when a dedicated revenue source (e.g., excise taxes) can be identified to pay debt service expenses. The project to be financed will generate net positive revenues (i.e., the additional revenues generated by the project will be greater than the debt service requirements).

- I. The Town's privilege/excise tax to debt service goal will be a ratio of at least 2.5:1 to ensure the Town's ability to pay for long-term debt from this elastic revenue source.

9.4 Issuance of Obligations.

- A. The Town shall select the underwriter and the paying agent/registrars for each debt issuance based on competitive bid. The underwriter must be a firm with an office in the Phoenix area and a record of prior working relationships.
- B. The request for proposals process will be designed to select the service providers that offer the Town the best combination of expertise and price. The Town is not required to select the firm offering the lowest price, but a report must be prepared by the Town Manager providing justification to the Town Council for a recommendation when other than the lowest bidder is chosen. The review of all proposals submitted shall be the responsibility of the Town Manager.
- C. The Town will sell bonds through public sale, online bidding process or an accelerated bidding process unless the Town Council authorizes the bond to be sold by negotiated sale or private placement.
- D. The Town Manager or designee and Town Attorney will coordinate their activities to ensure that all securities are issued in the most efficient and cost-effective manner and in compliance with the governing statutes and regulations. The Town Manager and the Town Attorney shall consult and jointly select the bond counsel for a bond issue.
- E. The Town Manager or authorized designee will seek a rating on all new issues which are being sold in the public market if economically feasible.
- F. The Town will report all financial information on an annual basis and notices of listed events in a timely manner, not in excess of ten business days after the occurrence of event, to the rating agencies and the Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA) system. The annual report will include but not be limited to the Town's annual Comprehensive Annual Financial Report (CAFR) and other items specified in the Town's continuing disclosure undertakings.
- G. Any institution or individual investing monies as an agent for the Town shall do so in a manner consistent and in compliance with the Town's adopted Investment Policy.
- H. The Town Manager or authorized designee will provide detailed draw schedules for any project to be funded with borrowed monies. The Town will invest the proceeds or direct a trustee to invest the proceeds of all borrowings in a manner that will ensure the availability of funds as described in the draw schedules.
- I. The Town acknowledges the responsibilities of the underwriting community and pledges to make all reasonable efforts to assist underwriters in their efforts to comply with Securities and Exchange Commission Rule 15c2-12 and MSRB Rule G-36. The Town will follow its adopted issuance and post-issuance compliance procedures relating to its tax-exempt financings.

X. INVESTMENT/CASH MANAGEMENT POLICY

It is the intent of this investment/cash management policy (the "Investment Policy") that idle public funds (i.e., uninvested funds) will be invested in a manner that maintains safety of principal, maintains liquidity to meet cash flow needs, provides competitive investment returns and conforms to all state statutes governing the investment of public funds (the "Investment Portfolio"). The purpose of these investment guidelines is to formalize the framework for the Town's daily investment activities.

10.1 Scope. This Investment Policy shall be administered in a manner that follows Arizona Revised Statutes Title 35, Chapter 2, Article 2.1, as amended and other investment guidelines mandated by statute and is limited in its application to funds that are not immediately needed and are available for investment, including any and/or all districts, component units, etc., of the Town. These funds are accounted for in the Town's Comprehensive Annual Financial Report ("CAFR") and may include:

- A. The General Fund;
- B. Highway User Revenue Fund;
- C. Excise Tax Funds;
- D. Special Revenue Funds;
- E. Debt Service Funds;
- F. Capital Project Funds;
- G. Development Fees Funds;
- H. Internal Service Funds; and
- I. Any new fund/component unit created unless specifically exempted.

Except for cash in certain restricted funds, the Town will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

10.2 Prudence. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by any firm or individual given responsibility as Investment Officer shall be the "prudent person" standard and shall be applied in the context of a professional investment official managing an overall portfolio or account in a manner that aims to accomplish the objectives set forth in these policies. Investment Officers acting in accordance with the Town's written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

10.3 Objectives. In priority order, the primary objectives of Town investment activities are:

- A. **Safety**: Safety of principal is the foremost objective of the investment program. Investments of the Town shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, the Town will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

- B. **Liquidity:** The Town Investment Portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated. Liquidity will be achieved by matching investment maturities with forecasted cash flow funding requirements, by investing in securities with active secondary markets and by diversification of maturities and call dates. Furthermore, since all possible cash demands cannot be anticipated, a portion of the portfolio may also be placed in savings accounts, Certificates of Deposit (“CDs”) or local government investment pools that offer same day liquidity for short-term funds.
- C. **Yield (Return on Investments):** The Town Investment Portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs and the cash flow characteristics of the portfolio.

Return shall be subordinated to safety and liquidity. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity, with the following exceptions:

- (1) A security with declining credit may be sold early to minimize loss of principal;
 - (2) A security swap would improve the quality, yield or target duration in the portfolio;
 - (3) Liquidity needs of the portfolio require that the security be sold; and
 - (4) If market conditions present an opportunity for the Town to benefit from the sale.
- D. **Risk of Loss:** All participants in the investment process will seek to act responsibly and prudently as custodians of the public trust. Investment Officers will avoid any transactions that they reasonably believe might impair public confidence in the Town’s ability to govern effectively. The Town Council recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio’s investment return, provided that adequate diversification has been implemented.

10.4 **Investment Strategy.** The Town intends to pursue a portfolio management philosophy that includes passive management; passive management means that the financial markets will be monitored by Investment Officers and investments will be purchased and sold based on the Town’s parameters for safety and liquidity and based on market conditions. All marketable securities purchased by the Town shall have active secondary markets, unless a specific cash outflow is being matched with an investment that will be held to maturity to meet that obligation. Securities may be purchased as a new issue or in the secondary markets. Securities may be sold as provided in Section 4.3. Securities may be purchased with the intent from the beginning to sell them prior to maturity or with the expectation that the security would likely be called prior to maturity under the analyzed market scenario. The portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value between asset groups shall be analyzed and pursued as part of the investment program within the restrictions set forth by this Investment Policy. Diversification by market sector and security types, as well as maturity will be used to protect

the Town from credit and market risk in order to meet liquidity requirements. Market and credit risk shall be minimized by diversification and are defined below:

- A. Credit Risk: The Town will seek to mitigate credit risk, which is defined as the risk of loss due to failure of the security issuer or backer. Mitigating credit risk is to be accomplished by carefully managing the allocation of funds to non-government or insured sectors. The Finance Director will monitor the credit holdings on a continuous basis to ensure they remain appropriate to hold.
- B. Interest Rate Risk: The Town will seek to mitigate interest rate risk, which is defined as the risk that the market value of securities held in the portfolio will decline due to increases in market interest rates subsequent to their purchase. This mitigation will be accomplished by:
 - (1) Structuring the Investment Portfolio so that securities mature concurrent with the anticipated cash requirements for ongoing operations, thereby avoiding, as much as possible, the need to sell securities into an adverse market environment prior to maturity;
 - (2) Investing funds primarily in shorter-term securities or similar investment pools and limiting the average maturity of the portfolio in accordance with the needs of the Town; and
 - (3) With respect to any firm or individual given responsibility for investments, utilizing external research and advice regarding the current interest rate outlook and global economic condition to optimize portfolio duration strategy.
- C. Market Rate Risk: The Town will seek to mitigate market rate risk, which is defined as the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. This mitigation will be accomplished by:
 - (1) Providing adequate liquidity for short-term cash needs; and
 - (2) Making longer-term investments only with funds that are not needed for current cash flow purposes.

10.5 Responsibility and Control.

- A. Delegation of Authority: Authority to manage the Town investment program is derived from the ARIZ. REV. STAT. §§ 35-323 - 328. Management responsibility for the investment program is hereby delegated to the Finance Director. The Finance Director shall be primarily responsible for ensuring the Investment Portfolio is invested according to this Investment Policy. In carrying out these duties, the Finance Director may delegate certain tasks to others (each an "Investment Officer") whose skill and experience are appropriate to the delegation. The term "Investment Officer" includes the Finance Director (until a particular task is delegated) and the "Investment Advisor," as defined below and as described in Section 10.5. A list of Town personnel eligible for delegation as Investment Officer is attached to this Investment Policy in Appendix A.
- B. Establishment of Procedures: The Finance Director shall establish written procedures for the operation of the investment program consistent with this

Investment Policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Finance Director.

- C. Management Responsibilities: No person shall engage in an investment transaction except as provided under the terms of Investment Policy, the procedures established by the Finance Director, or designee, and verbal or written authorization by the Finance Director to withdraw, transfer, deposit and invest the Town's funds. The Finance Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of Investment Officers. The Finance Director has the authority to manage internally or to delegate the management of the investment program to an investment advisor engaged by the Town (the "Investment Advisor"). The Finance Director is responsible for:
- (1) Reporting Investment Portfolio performance to Town Manager;
 - (2) Evaluating the performance of the externally-managed portfolio;
 - (3) Monitoring Investment Advisor's compliance with this Investment Policy;
 - (4) Conveying the investment needs of the Town to the Investment Advisor; and
 - (5) Developing investment strategy with the Investment Advisor.
- D. Ethics and Conflicts of Interest: All persons involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and Investment Officers shall disclose to the Town Manager any material financial interests in financial institutions that conduct business within the Town, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Town, particularly with regard to the time of purchases and sales. This Investment Policy expressly incorporates the provisions of ARIZ. REV. STAT. Title 38, Chapter 3, Article 8.
- E. Disclosure: Investment Officers and employees shall disclose to the Town Manger any material financial interest in financial institutions that conduct business with the Town. Investment Officers and employees shall further disclose any material personal investment positions that could be related to the performance of the Town's Investment Portfolio. Investment Officers and employees shall subordinate their personal investment transaction to those of this jurisdiction, particularly with regard to the timing of purchases and sales. An Investment Officer who is related within the second degree by affinity or consanguinity to individuals seeking to sell an investment to the Town shall file a statement with the Town Manager and the Finance Director disclosing that relationship.
- F. Investment Training: Investment Officers shall have a finance, accounting or related degree and knowledge of treasury functions and the State of Arizona laws governing public money management and investments.

10.6 Authorized Financial Dealers and Institutions. The Finance Director will maintain a list of qualified persons or firms authorized to provide investment services that have been publicly procured. In addition, a list will also be maintained of the State pool of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services. The Town shall qualify persons or firms by applying generally accepted industry standards (i.e., capital requirements, asset quality, earnings, liquidity, management and local community development) using available public agency and private rating services as appropriate. Investment transactions shall only be conducted with financial institutions that are licensed as may be required by law to do business in Arizona. Primary government securities dealers, or broker-dealers engaged in the business of selling government securities shall be registered in compliance with section 15 or 15C of the Securities Exchange Act of 1934 and registered pursuant to ARIZ. REV. STAT. § 44-3151, as amended. It shall be the responsibility of the financial institutions and broker/dealers who desire to become qualified bidders for investment transactions to provide the following:

- i. Audited financial statements within six months of the close of the fiscal year;
- ii. Proof of Financial Industry Regulatory Authority (FINRA) certification, and trading resolution;
- iii. Proof of State registration; and
- iv. Certification of having read this Investment Policy and the Town's depository contracts.

An eligible listing of broker/dealers shall be established for the purchase and sale of investment securities; a new list of approved broker/dealers will be established as needed. External managers may also use their own lists of internally-approved broker-dealers, but only after any such list has been approved by the Town Manager and Finance Director. A periodic review of the financial condition and registrations of qualified companies will be conducted by the Finance Director and the Town Manager.

- A. Selection of Depository, Financial Institutions and Broker/Dealers: Depositories shall be selected through the Town's procurement process, with a typical contract being for two years with an option to extend the contract for three additional one year terms. In selecting depositories, the creditworthiness of institutions shall be considered, and the Finance Director shall conduct a comprehensive review of the prospective depositories' credit characteristics and financial history. No public deposit shall be made except in an eligible public depository as established by state depository laws. The depository bank bid will not include bids for investment rates on certificates of deposit.

Certificate of deposit rates will be evaluated competitively between qualified financial institutions in accordance with the manner in which all other types of investment assets are purchased. The Investment Officer may accept bids for certificates of deposit and for all marketable securities either orally, in writing, electronically, or in any combination of these methods. The Investment Officer will strive to receive three price quotes on marketable securities being sold, but may allow one broker/dealer to sell at a predetermined price under certain market conditions. Investments purchased shall be shopped competitively between approved financial institution and broker/dealers.

- B. Insurability: Banks, financial institutions, individuals and firms seeking to establish eligibility for the Town's certificates of deposit purchase program, shall submit financial statements, evidence of federal insurance and other information as required by the Investment Officers.

10.7 Portfolio and Investment Asset Parameters.

- A. Pricing: Market price for investments acquired for the Town's Investment Portfolio shall be priced using independent pricing sources and market value shall be monitored at least annually.
- B. Eligible Investments: The Town's eligible investments are governed by ARIZ. REV. STAT. § 35-323 *et seq.* Furthermore, those investments not identified in ARIZ. REV. STAT. § 35-323 *et seq.* are considered to be ineligible. For the eligible investments, the following limitations apply:
 - (1) Investments in insured or collateralized CDs in eligible depositories shall not exceed 30% of the portfolio.
 - (2) Investments in Certificate of Deposit Account Registry Services shall not exceed 20% of the portfolio.
 - (3) Bonds, notes or other evidences of indebtedness of the State or any of its counties, incorporated cities or towns, school districts or special taxing districts, including registered warrants that bear interest pursuant to ARIZ. REV. STAT. § 11-635, shall not exceed 10% of the portfolio.
 - (4) Bonds, notes or evidences of indebtedness of any county, municipal district, municipal utility or special taxing district of any state that are payable from revenues, earnings or a special tax specifically pledged for the payment of the principal and interest on the obligations, and for the payment of which a lawful sinking fund or reserve fund has been established and is being maintained shall not exceed 10% of the portfolio.
 - (5) Bonds, notes or evidences of indebtedness issued by any county improvement district or municipal improvement district of any state to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the improvement district shall not exceed 10% of the portfolio.
 - (6) Commercial paper of prime quality shall not exceed 30% of the portfolio.
 - (7) Bonds, debentures, notes or other evidences of indebtedness shall not exceed 30% of the portfolio.
 - (8) Negotiable or brokered certificates of deposit issued by a nationally or state chartered bank or savings and loan association shall not exceed 30% of the portfolio.

Bond proceeds shall be invested by the Finance Director (or the Investment Officer, if such duties have been delegated) pursuant to applicable laws, relevant bond indenture requirements and relevant tenets of this Investment Policy.

Proceeds from tax-exempt bonds shall be invested, recorded and reported in the manner set forth by the United States ("U.S.") Treasury and Internal Revenue Service to preserve the tax-exempt status of the bonds. The Town's Finance Department will maintain systems to ensure that these requirements are met. Funds set aside to defease Town debt in conjunction with an escrow agreement will be invested in accordance with State law and appropriate bond documents and as the trustee bank holding such funds deems necessary.

- C. **Prohibited Investments:** Regardless of sector, no more than 5% of the portfolio may be invested in any one issuer (excluding obligations issued or guaranteed by the U.S. or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities). In addition to the limitations on investment types according to ARIZ. REV. STAT. § 35-323 *et seq.*, Town funds will not be invested in any of the following:
- (1) reverse repurchase agreement
 - (2) callable agencies
 - (3) derivative type investments such as collateralized mortgage obligations, strips, floaters, etc.
 - (4) futures, contractual swaps, options
 - (5) inverse floaters
 - (6) interest only securities
 - (7) forward contracts
 - (8) interest bearing securities that have a possibility of not accruing current income
 - (9) closed end management type companies
 - (10) securities whose yield/market value is based on currency, commodity or non-interest indices
 - (11) bearer-form securities
- D. **Downgraded Credit Ratings:** If the credit rating of a security is subsequently downgraded below the minimum rating level specified in this Investment Policy, the Finance Director shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Finance Director will apply the general objectives of safety, liquidity, yield and legality to make the decision.

10.8 **Collateralization.** Where allowed by State law, full collateralization is required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. The State requires all depositories holding public funds participate in the State managed pooled collateral program. The State will monitor collateral for public funds to ensure the proper level of collateral is maintained by participant depositories. The Finance Director will check to ensure that any depository it utilizes is a State collateral pool participant. In the event that the Town enters into a repurchase agreement, it shall require collateralization at 102% and accept only the following insurance and securities as collateral:

- A. FDIC insurance coverage.
- B. Obligations of the U.S., its agencies and instrumentalities, including agency and instrumentality issued mortgage backed collateral if directly guaranteed by the U.S.
- C. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State, the U.S. or its agencies and instrumentalities.

- D. Obligations of states, agencies thereof, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a NRSRO and having received a rating of no less than "A" or its equivalent.
- 10.9 Safekeeping and Custody. All security transactions including collateral for repurchase agreements, entered into by the Town or its agents/trustees shall be conducted on a delivery-versus-payment ("DVP") basis. That is, funds shall not be wired or paid until verification has been made that the safekeeping bank received the correct security. The safekeeping, or custody, bank is responsible for matching instructions from the Town's Investment Officers on an investment settlement, with what is wired from the broker/dealer, prior to releasing the Town's designated funds for a given purchase. The security shall be held in the name of the Town, or held on behalf of the Town, in a bank nominee name. A third party custodian designated by the Finance Director and evidenced by safekeeping receipts will hold securities. The safekeeping bank's records shall assure the notation of the Town's ownership of, or explicit claim on, the securities. The original copy of all safekeeping receipts shall be delivered to the Town. Securities shall be held by a custodian designated by the Town Manager and evidenced by safekeeping receipts.
- 10.10 Internal Control. The Town Manager shall establish an annual process of independent review as part of the external audit. This review will provide internal control by assuring compliance with policies and procedures. The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:
- A. Control of collusion: Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
 - B. Separation of transaction authority from accounting and record keeping: By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
 - C. Custodial safekeeping: Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party of custodial safekeeping.
 - D. Avoidance of physical delivery securities: Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
 - E. Clear delegation of authority to staff members: Staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
 - F. Written confirmation of transactions for investments and wire transfers: Due to the potential for error and improprieties arising from telephone and electronic

transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via facsimile if on letterhead and if the safekeeping institution has a list of authorized signatures.

- G. Development of a wire transfer agreement with the lead bank and third-party custodian: The Finance Director should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.
- 10.11 Reporting. The Town Manager, or designee, is charged with the responsibility of providing quarterly reports on investment activity and returns. The report shall summarize investment transactions that occurred during the reporting period, and shall include, at a minimum:
- A. Asset listing showing par value, cost and market value of each security, type of investment, issuer and interest rate;
 - B. Average maturity of the portfolio;
 - C. Maturity distribution of the portfolio;
 - D. Average portfolio credit quality;
 - E. Distribution by type of investment.
- 10.12 Investment Policy Adoption. This Investment Policy shall be adopted by resolution of the Town Council. The Investment Policy shall be reviewed at least once every five years by the Finance Director and Town Manager and any modifications made hereto must be approved by the Town Council.
- 10.13 Certification. A copy of this Investment Policy will be provided upon request to the senior management of any financial institution that is approved to transact business with the Town in order that it is apprised of the policies of the Town. The certification must be signed and executed by a senior member of the financial institution before any business is conducted.

GLOSSARY

AGENCY: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINT: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield (e.g., "1/4" of 1 percent is equal to 25 basis points).

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for commission.

CERTIFICATE OF DEPOSIT (CDs): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICES (CDARS): A network of financial institutions offering CDs that diversify large deposits between banks at FDIC limits.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the Town. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES:

Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S&L's small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FARM CREDIT BUREAU

(FFCB): Debt securities issued by banks of the Farm Credit System, a leading provider of loans, leases and services to rural communities and U.S. agriculture.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS

(FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of

Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the U.S. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET

COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the U.S. created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

FINANCIAL REGULATORY

INDUSTRY AUTHORITY: A regulatory body created after the merger of the National Association of Securities Dealers and the New York Stock Exchange's regulation committee. The Financial Industry Regulatory Authority is responsible for governing business between brokers, dealers and the investing public. By consolidating these two regulators, FINRA aims to

eliminate regulatory overlap and cost inefficiencies.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIE MAE): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

GOVERNMENT SPONSORED ENTERPRISE AGENCIES (GSE): U.S. Government Agencies, Government Sponsored Enterprises (GSEs), Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited to, Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB).

INTERNAL CONTROLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met.

INVESTMENT ADVISOR: An independent person or group of people that makes investment recommendations or conducts securities analysis for a fee.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is

narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (i.e., bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect.

Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include SEC-registered securities broker-dealer, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state - the so-called legal list. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital (see ARIZ. REV. STAT. §§ 14-10902 and 14-10906).

QUALIFIED PUBLIC DEPOSITORIES:

A financial institution which does not claim exemption from the payment of any sales or compensation use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RAINY DAY FUND: Designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. A Rainy Day Fund can be used to balance the budget which is the intended purpose.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR

REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, which is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE

COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SIFMA: Securities Industry and Financial Markets Association.

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period: (Price Appreciation) +

(Dividends paid) + (Capital Gains) = Total Return.

U.S. TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

U.S. TREASURY BONDS: Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

U.S. TREASURY NOTES: Intermediate U.S. government debt securities with maturities of 1 to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

U.S. TREASURY OBLIGATION: Direct obligations of the U.S. Treasury whose payment is guaranteed by the U.S.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Appendix A

Authorized Investment Officers

PFM Asset Management LLC
Attn: Paulina Woo
1820 East Ray Road
Chandler, Arizona 85225

Town Manager

Town Accountant (limited in ministerial acts only)

Town Clerk (limited in ministerial acts only)