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Principles of Sound Financial Management

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Introduction

The Town has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. In these times of tight budgets, of major changes in federal and state policies toward local government, and of limited growth in the Town's tax base, the Town needs to ensure that it is capable of adequately funding and providing those government services desired by the community. Ultimately, the Town's reputation and success will depend on the public's awareness and acceptability of the management and delivery of these services.

These adopted Principles of Sound Financial Management establish guidelines for the Town's overall fiscal planning and management. These principles are intended to foster and support the continued financial strength and stability of the Town of Dewey-Humboldt as reflected in its financial goals. The Town's financial goals are broad, fairly timeless statements of the financial position the Town seeks to attain:

- To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the Town of Dewey-Humboldt.
- 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.
- To maintain a high bond credit rating to ensure the Town's access to the bond markets and to provide assurance to the Town's taxpayers that the Town government is well managed and financially sound.

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. To achieve these purposes as the Town of Dewey-Humboldt continues to grow and develop, it is important to regularly engage in the process of financial planning including reaffirming and updating these financial guidelines. Policy changes will be needed as the Town continues to grow and become 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.

Resolution adopting these Principals as a Council Policy 08-__

1. Fiscal Planning and Budgeting

Fiscal planning refers to the process of identifying resources and allocating those resources among numerous and complex competing purposes. The primary vehicle for this planning is the preparation, monitoring and analysis of the Town's budget. It is increasingly important to incorporate a long-term perspective and to monitor the performance of the programs competing to receive funding.

Forecasting

The Chief Financial Officer will prepare a **3-year** long-range financial forecast that will incorporate both revenue and expenditure estimates for the Town's major operating funds. The **3-year** revenue forecast will *focus solely on* revenues that are anticipated to be sustainable over the **3-year** period. The estimates of non-agency revenues, **grant** and agency revenues, and inter-fund transfers will also be provided. Expenditure projections should include the anticipated operating impacts of the adopted capital improvement program. The **3-year** long-range forecast will be updated **annually** and presented to the Town Council at the start of the Town budget process. In the event that the Town issues debt securities, the CFO will prepare **5-year** forecasts, rather than **3-year**.

Additionally, the CFO will prepare less detailed **10-year** forecasts for use in the Capital Improvement Program budget only.

Schedule

The Town Manager shall submit a proposed annual budget to the Town Council before the **March 31st in each year**. This proposed budget must be based on Council's established goals. The Town Manager shall execute the budget as finally adopted, pursuant to **Title 42, Chapter 7, Article 3, Section 17105** of the Arizona Revised Statutes, as amended. The Town will budget revenues and expenditures on the basis of a fiscal year which begins July 1st and ends on the following June 30th. The Town Council shall adopt the budget for the following fiscal year no later than **June 1st**. If the budget is not adopted before June 1st, the Council shall adopt a continuing resolution to allow the Town to expend funds until the budget is adopted.

The Town Manager shall provide **annually** 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 programs in a timely manner for the Programs' completion. Program officials shall prepare and return their budget proposals to the Budget Office, as required in the budget preparation schedule.

Standards

The Town will prepare a budget in accordance with the framework established by the National Advisory Council on State and Local Budgeting in Recommended Budget Practices – A Framework for Improved State and Local Government Budgeting and the Government Finance Officers Association in its Distinguished Budget Award Program. The proposed budget will contain the following:

- ☑ Revenue estimates by major category, by fund;
- ☑ Expenditure estimates by program levels and major expenditure category, by fund;
- ☑ Estimated fund balance by fund;
- ☑ Debt service, by issue, detailing principal and interest amounts;
- ☑ Proposed personnel staffing levels per program;
- ☑ A detailed schedule of capital projects; and
- ☑ Any additional information, data, or analysis requested of management by the Town Council.

The Town maintains its financial records in accordance with accounting principles generally accepted in the United States of America known as GAAP. Although the Town's budget is prepared on a modified cash basis that differs from GAAP, the Town will attempt to minimize these differences between the budget basis of accounting and GAAP.

Operating Budget

The operating budget will be organized around policy outcomes, typically in programs, intended to be achieved within the budget period. It is often appropriate to refer to interim outcomes towards a longer-term outcome beyond the current year. The preferred policy outcomes will be explicitly outlined and will describe the changes in the lives of individuals, families, organizations, or the Town as a result of the program. Line items within programs should describe discrete actions, and should be neither so vague as to confuse the expected outcome nor so granular that the mass of detail is distracting.

Fiscally, 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 budget will not use one-time (non-recurring) sources to fund continuing (recurring) uses, postpone expenditures, or use external borrowing for operational requirements. The budget will incorporate the best available estimates of revenues and expenditures.

The budget will fully appropriate the estimated actual expenditures needed for authorized regular staffing. A system will be used to facilitate position control. At no time shall the number of full-time and regular part-time employees on the payroll exceed the total number of positions authorized by the Town Council. Pursuant to Personnel Administrative Regulations, additional temporary appointment of employees can be made with the approval of the Town Manager.

Unspent appropriations for significant programs and major projects will be considered for re-appropriation in the subsequent fiscal year. Such re-appropriation shall be included to finance the overall proposed budget. ***There may be transfers of appropriations between programs that occur only by Council action amending the adopted budget.***

Performance Measures

Performance measurement indicators will be integrated into the budget process as appropriate. Performance measures will be monitored and reported on an annual basis.

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.

Budget Risk Management

The Town's annual budget will include contingency appropriation to provide for unanticipated increases in service delivery costs, emergencies, and needs that may arise throughout the fiscal year. The contingency appropriation can only be expended upon separate Council action.

The Town shall establish appropriate management controls to monitor expenditure budgets to ensure they do not exceed authorizations. For operating budgets, this control shall be exercised at the program/fund level. For capital budgets, this control shall be at the project level.

A **quarterly** report on the status of the General Fund budget and trends will be prepared by the Finance Department and presented to the Town Council by **no later than 60 days of the end of each quarter**. In addition, the **quarterly** report shall include revenue and expenditure projections through the end of the fiscal year.

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 Undesignated General Fund Balance, 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 new hires, promotions, transfers, and capital equipment purchases. Such action will not be taken arbitrarily and without knowledge and support of the Town Council.

Capital Budget

The Capital Budget will be prepared in accordance with the *Capital Improvement Program* section hereof.

2. Fund Balance

Fund balance is an important indicator of the Town's financial position. Adequate fund balances must be maintained to allow the Town to continue providing services to the community in case of economic downturns and/or unexpected emergencies or requirements.

The Town's Undesignated General Fund Balance will be maintained to provide the Town with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.

The Town will budget a contingency appropriation in the General Fund of at least **5%** and no more than **10%** of that year's budgeted expenditures.

The Town will maintain a General Fund reserve called an Operational Reserve of at least **30%** and no more than **50%** of the average actual General Fund revenues for the preceding **5 fiscal years**. The Operational Reserve may only be used to cover unforeseen emergencies and unexpected declines in revenue. To the extent these reserves are expended, the Town will increase its General Fund revenues or decrease its expenditures as necessary to prevent the continued use of these reserves. Additional funds necessary to restore this Operational Reserve amount will be provided in approximately equal contributions during the **3 fiscal years** following the fiscal year in which the drawdown of the reserve occurred.

Funds in excess of the contingency appropriation and Operational Reserve will be Undesignated General Fund Balance, and may be considered to supplement "pay as you go" capital outlay and one-time operating expenditures, or may be used to prepay existing Town debt. These funds may not be used to establish or support costs that are recurring in nature.

The Undesignated General Fund Balance can only be authorized for expenditure by action of the Town Council.

3. Expenditure Control

Management must ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with legal requirements and policies and procedures set forth by the Town.

Expenditures will be controlled by an annual appropriated budget at the program/fund level. The Town Council shall establish appropriations through the budget process. The Town Manager may transfer expenditure authority between line items within a program, but only the Council may transfer appropriations between programs. Written procedures will be maintained for administrative approval and processing of budget transfers between line items, programs, and funds. Contracts and other financial obligations of the Town that exceed the lesser of **\$25,000** or the budgeted appropriation must be executed by the Town Council; other contracts and financial obligations may be executed by the Town Manager.

Program heads are responsible for monitoring expenditures to prevent exceeding their total program expenditure budget. It is the responsibility of these program heads to immediately notify the Town's Chief Financial Officer and the Town Manager of any circumstances that could result in a program budget being exceeded.

The Town will maintain a purchasing system that provides needed commodities and services in a timely manner to avoid interruptions in the delivery of services. All purchases shall be made in accordance with the Town's procurement code, purchasing policies, guidelines and procedures and applicable state and federal laws. The Town will endeavor to obtain supplies, equipment and services that provide the best value.

A system of appropriate internal controls and procedures using best practices shall be maintained for the procurement and payment processes. These internal controls will be reviewed in conjunction with the Town's annual financial audit.

The Town will make all payments within the established terms. The Town shall pay applicable contractor invoices in accordance with the requirements of Arizona Revised Statutes § 34-221.

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 (A.R.S. § 41-1279.07) to the State Auditor General within the prescribed timelines.

The Town Council will pursue local override of the State expenditure limitation as provided by the State Constitution if the projected expenditures within **2 years** are anticipated to exceed the expenditure limitation. This override may be through local voter approval of a permanent base adjustment (Article IX, Section 20, Subsection 6), or by local voter approval of Home Rule (Article IX, Section 20, Subsection 9).

4. Revenues and Collections

In order to provide funding for service delivery, the Town must have reliable revenue sources. These diverse revenues must be assessed and collected equitably, timely, and efficiently.

The Town's goal is a General Fund revenue base balanced between local sales (transaction privilege) taxes, state shared revenues (including state sales taxes), and other revenue sources.

The Town will maintain a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations by doing the following:

- Conducting a cost of service study every **3 years** to determine if all allowable fees are being properly calculated and set at an appropriate level.
- Establishing new charges and fees as appropriate and as permitted by law.
- Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees.
- Aggressively collecting all revenues, late penalties and related interest as authorized by the Arizona Revised Statutes.

5. Grants

Many grants require Council's appropriation of funds, either for the original grant or to continue programs after the grant funding has expired. Council should review these grant programs prior to determining whether application should be made for these grant funds.

The Town shall apply for only those grants that are consistent with the objectives and high priority needs previously identified by Council. The potential for incurring ongoing costs, to include the assumption of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.

The Town shall attempt to recover all allowable costs – direct and indirect – associated with the administration and implementation of programs funded through grants. The Town may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the Town's policy objectives. When the potential for ongoing expenditures exceeds the program budget allocation, programs shall seek Council approval prior to submission of the grant application. If time constraints under the grant program make this impossible, the program shall obtain approval to submit an application from the Town Manager and then, at the earliest feasible time, seek formal Council approval. If there is a cash match requirement, the source of funding shall be identified prior to application.

The Town may terminate grant-funded programs and associated positions when grant funds are no longer available unless alternate funding is identified. When such grant funding is terminated, Town staff will prepare a report evaluating the results of the grant program and will make a finding to determine whether to continue funding the project with other financial resources. Many grants are given to enable towns to try a program or to provide seed money to establish a program, and follow-up analysis is required to make the best use of such funds.

6. User Fee Cost Recovery and Indirect Cost Allocations

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.

Indirect cost charges are assessed to recover a portion of the costs for services provided between various funds.

The Town may establish user fees and charges for certain services provided to users receiving a specific benefit.

The Town will conduct a cost of service study to identify the full cost of providing a service for which fees are charged. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components. Fees and charges will be established to recover the full cost of service, unless the percentage of full cost recovery has been reduced 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 only a portion of service costs.

User fees shall be reviewed every **3 years** to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary.

The Town shall establish a cost allocation plan to determine **annually** the administrative service charges due to the appropriate operating fund for overhead and staff support provided to another fund. Funds shall pay these indirect cost charges for services provided by another fund.

7. Development Impact Fees

The Council's policy is that growth should pay for itself to the maximum extent possible. As such, the Council has adopted a system of development impact fees. Development impact fees are one-time charges assessed against new customers to recover a proportional share of capital costs incurred to provide service capacity for new customers. Appropriate development fees are an important component in the overall strategy for pricing services.

The Town's objectives for development impact fees shall include the following:

- Support the cost of growth.
- Minimize the impact of growth on existing residents.
- Develop cost justified development fees.
- Address infrastructure requirements.
- Promote economic development.
- Provide financial capacity.

In general, development impact fees must be based on a rational analysis. This analysis will include:

- an assessment of the impacts of growth on the Town's capital needs;
- a determination that the amount of the fee does not exceed the reasonable cost to provide capacity to accommodate growth;
- the funds collected must be adequately allocated to pay for growth related impacts; and
- an identification of potential waivers or offsets to recognize other financial commitments resulting from development.

The Town will monitor the use of impact fee credits (both offsets and reimbursements) and will track and report liabilities associated with these credits.

Development impact fees will be assessed for the purposes allowed by law. The Town is allowed to adopt impact fees for the following:

- Libraries
- Parks, recreation facilities, rivers and trails and open space
- Law enforcement
- General government
- Transportation

The Town shall conduct a review of its development impact fees every **3 years**.

8. Capital Improvement Program

The purpose of the Capital Improvement Program is to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

The Town Manager will **annually** submit a **10-year** Capital Improvement Program for review by the Town Council pursuant to the timeline established in the annual budget preparation schedule. A **5-year** program would be more accurate and give the public more assurance that all of the projects within the plan will be completed, but the Town's level of income is such that a full **10 years** is needed to accumulate enough funds to include any significant improvements. Submission of the Capital Improvement Program shall be consistent with the requirements of Title 42, Chapter 17, Article 3 of the Arizona Revised Statutes. The Capital Improvement Program will incorporate a methodology to determine a general sense of project priority according to developed criteria.

The Capital Improvement Program shall provide:

- A statement of the objectives of the Capital Improvement Program and the relationship with the Town's General Plan, program master plans, necessary service levels, and expected facility needs.
- An implementation program for each of the capital improvements that provides for the coordination and timing of project construction among various Town programs.
- An estimate of each project's costs, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on Town revenues and operating budgets. The *operating impact information* shall be provided for the period covered in the Town's current **10-year** Capital Improvement Program. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably anticipated to be available when needed for the systematic improvement and maintenance of the Town's capital infrastructure.
- Revenues and project costs will be calculated in current dollars.
- Debt ratio targets that comply with the Debt Management section of these policies.
- A schedule of proposed debt issuance.

The Town will match programs and activities identified in the Capital Improvement Program with associated funding sources. The Town will also seek to match project costs with project users, with may require the issuance of debt to allow future users to pay in the future and to maintain intergenerational equity.

When current revenues or resources are available for capital improvement projects, consideration will be given first to those capital assets with the shortest useful life and to those capital assets whose nature makes them comparatively more difficult to finance with bonds or lease financing. Using cash for projects with shorter lives and bonds for projects with longer lives facilitates intergenerational equity, wherein projects with long useful lives are paid over several generations using the project through debt service payments.

Capital improvement projects will not be authorized or awarded until the funding sources have been identified to finance the project and operating costs have been accounted.

Staff will monitor projects in progress to insure their timely completion or the adjustment of the Capital Improvement Program as approved by Council if a project is delayed or deferred. A **quarterly** status report will be presented to Town Council to monitor each project's progress and to identify any significant issues associated with a project. A prior year capital project status report shall be presented to the Town Council for information purposes when the capital improvement budget is considered.

Within **90 days** of the completion of a capital project any remaining appropriated funds for the project will be closed off and will revert to the fund balance of the funding source.

The Capital Improvement Program will be updated **annually** as a multi-program effort.

9. Cash Management and Investment

Cash management includes the activities undertaken to ensure maximum cash availability and maximum investment yield on a government's idle cash, and the cash collection function.

The Town shall maintain and comply with a written Investment Policy that has been approved by the Town Council. The Chief Financial Officer, as Chief Investment Officer, or his designee shall invest all funds of the Town according to the approved Investment Policy.

The Town will collect, deposit and disburse all funds on a schedule that insures optimum cash availability for investment.

In order to maximize yields from its overall portfolio, the Town will consolidate cash balances from various funds for investment purposes, and will allocate investment earnings to each participating fund.

Bond funds will be segregated from all other funds for arbitrage and accounting purposes.

The Town will project the cash needs of the Town to optimize the efficiency of the Town's investment and cash management program.

The Town will conduct its treasury activities with financial institution(s) based upon written contracts.

Ownership of the Town's investment securities will be protected through third party custodial safekeeping.

All Town bank accounts shall be reconciled and reviewed on a **monthly** basis.

Investment performance will be measured using standard indices specified in the Town's written investment policy. The Chief Financial Officer shall provide the Town Council with a **quarterly** investment report within **45 days** of the end of each **quarter**.

The Town's Cash Management and Investment processes will be in accordance with written internal controls and procedures.

10. Debt Management

It is the Town's intention to utilize long term debt to finance capital projects with long useful lives. 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.

The purpose of this debt management policy is to provide for the preservation and eventual 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. These policy guidelines will also be used when evaluating the purpose, necessity and condition under which debt will be issued. These policies are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, State Statutes, Town incorporation documents, federal tax laws, and any future bond resolutions and covenants.

The Arizona Constitution limits a Town's bonded debt capacity (outstanding principal) to certain percentages of the Town's secondary assessed valuation by the type of project to be constructed. There is a limit of **20%** of secondary assessed valuation for projects involving water, sewer, artificial lighting, parks, open space, and recreational facility improvements. There is a limit of **6%** of secondary assessed valuation for any other general-purpose project.

All projects funded with Town general obligation bonds or revenue bonds must be included in the Town's Capital Improvement Plan and can only be undertaken after voter authorization is obtained through a Town-wide bond election.

The overall debt management policy of the Town is to ensure that financial resources of the Town are adequate in any general economic situation to not preclude the Town's ability to pay its debt when due.

The Town will not use long-term debt to fund current operations or projects that can be financed from current revenues or resources. The Town will first attempt to utilize "pay as you go" capital financing and/or the use of operating funds or impact fees where applicable.

The Town does not intend to issue commercial paper (CP) or bond anticipation notes (BANs) for periods longer than **2 years** or for the term of a construction project. If CP or a BAN is issued for a capital project, it will be converted to a long-term bond or redeemed at its maturity.

The issuance of variable rate debt by the Town will be subject to the most careful review and will be issued only in a prudent and fiscally responsible manner.

The Town shall make every effort to combine debt issuances in order to minimize issuance costs.

Whenever the Town finds it necessary to issue tax-supported bonds, the following policy will be adhered to:

- Tax supported bonds are bonds for which funds used to make annual debt service expenditures are derived from Ad Valorem Tax (property tax) revenue of the Town.

- The target for the maturity of general obligation bonds will typically be between **20 and 30 years**. The target for the “average weighted maturities” for general obligation bonds of the Town will be **12 years and 6 months**.
- Where applicable, the Town will structure general obligation bond issues to create level debt service payments over the life of the issue.
- Debt supported by the Town’s General Fund will not exceed **10%** of the annual General Fund revenues.
- Secondary property tax rates will be determined each year as part of the budgetary process (pursuant to State law) to pay the necessary debt service payments of general obligation bonds currently outstanding or expected to be issued within the fiscal year.
- In accordance with requirements of the State of Arizona Constitution, total bonded debt will not exceed the **20%** limitation and **6%** limitation of the total secondary assessed valuation of taxable property in the Town.
- Reserve funds, when required, will be provided to adequately meet debt service requirements in subsequent years.
- Interest earnings on bond fund balances will only be used to pay debt service on the bonds unless otherwise committed for other uses or purposes of the project.
- The term of any bond will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Revenue bonds are defined as a bond on which the debt service is payable from the revenue generated from the operation of the project being financed or a category of facilities, from other non-tax sources of the Town, or from other designated taxes such as highway user’s revenues, excise tax, or special fees or taxes. For any bonds or lease-purchase obligations in which the debt service is paid from revenue generated by the project and/or partially paid from non-property tax sources, that debt service is deemed to be revenue bonds and are excluded from the calculation of the annual debt service limitation. Whenever the Town finds it necessary to issue revenue bonds, the following guidelines will be adhered to:

- Revenue bonds of the Town will be analyzed carefully by the Finance Department for fiscal soundness. Part of this analysis shall include a feasibility report prepared by an independent consultant prior to the issuance of utility supported revenue bonds to ensure the generation of sufficient revenues to meet debt service requirements, compliance with existing bond covenants and to protect the bondholders.
- Revenue bonds should be structured to provide level annual debt service over the life of the issue.
- Debt Service Reserve Funds will be provided when required by rating agencies, bond insurers or existing bond covenants.
- Interest earnings on the reserve fund balances will be used to pay debt service on the bonds unless otherwise committed for other uses or purposes of the project.

- ☑ The term of any revenue bond or lease obligation issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
- ☑ The target for the term of revenue bonds will typically be between **20** and **30 years**. The target for the “average weighted maturities” for revenue bonds of the Town (except for those issued through the Arizona-Water Infrastructure Finance Authority) will be **12 years and 6 months**.

Improvement District (ID) and Community Facility District (CFD) Bonds shall be issued only when the formation of the district demonstrates a clear and significant purpose for the Town. It is intended that Improvement District and Community Facility District bonds will be primarily issued for neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, street lights, and drainage. The District must provide a specific benefit to the property owner(s). The Town will review each project through active involvement of Town staff and/or selected consultants to prepare projections, review pro-forma information and business plans, perform engineering studies, and analyze minimum debt coverage and value to debt ratios, and other analyses necessary to consider the proposal against specified criteria. Both ID and CFD bonds will be utilized only when it is expected that they will be outstanding for their full term.

An expanded policy will be maintained detailing the policy and procedures of the Town related to any future consideration of the formation of a Community Facilities District. Use of a CFD would require compliance with the new guidelines and procedures and specific Council approval.

Refunding bonds will be measured against a standard of the net present value debt service savings exceeding **5%** of the debt service amount of the bonds being refunded, or if savings exceed **\$250,000**, or for the purposes of modifying restrictive covenants or to modify the existing debt structure to the benefit of the Town.

The investment of bond proceeds shall at all times be in compliance with the Town’s Investment and Portfolio Policies and meet all requirements of bond covenants. The Town shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness. The Town shall comply with Arizona Revised Statutes and all other legal requirements regarding the issuance of bonds and certificates of the Town or its debt issuing authorities. The Town will maintain contact with rating agencies through meetings and visits on and off-site. The Town will secure ratings on all bonds issued when economically feasible.

The Town shall maintain a debt profile for all bonds issued and update the profile on an annual basis. The debt profile shall include specific information regarding the size and type of debt issued, projects financed by the bonds, debt service schedules and other pertinent information related to each specific bond issue.

11. Risk Management

Risk management has become increasingly important in guarding against economic loss and in ensuring public safety in a time of increasing public liability and litigation. Risk management is involved in the identification, evaluation, and treatment of the Town's risk.

The Town shall make diligent efforts to prevent or mitigate the loss of Town assets and to reduce the Town's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.

When cost effective, the Town shall manage its exposure to risk through self-insurance or through the purchase of traditional third-party insurance in the following areas: general liability, automobile liability, public officials' errors and omissions, police professional liability, property loss and workers' compensation. The use of risk-pooling opportunities should be maximized, e.g., by use of the Arizona risk retention pool.

When cost effective, the Town will further control its exposure to risk through the use of "hold harmless" agreements in Town contracts and by requiring contractors to carry liability insurance, including errors and omissions coverage for architectural, engineering, and other applicable professional firms.

Insurance reserves shall be maintained at a level which, together with any purchased insurance, will adequately indemnify the Town's assets and its elected officials, officers and directors against loss. A study will be conducted every **3 years** for potential liability areas and shall be used as a basis for determining self-insurance reserves based on historical loss data. The Town will strive to fully fund actual and estimated liabilities including reserves for incurred-but-not-reported (IBNR) claims.

The Town will identify and disclose material contingent liabilities in the Town's Comprehensive Annual Financial Report (CAFR).

Cost allocations to various funds will be based on an analysis of contributing factors.

12. Accounting, Auditing and Financial Reporting

Accounting, auditing and financial reporting form the informational infrastructure for public finance. Internal and external financial reports provide important information to the Town's legislative body, management, citizens, investors and creditors.

The Town will comply with accounting principles generally accepted in the United States in its accounting and financial reporting, as contained in the following publications:

- Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standard Board (GASB).
- Pronouncements of the Financial Accounting Standards Board, (FASB).
- Governmental Accounting, Auditing, and Financial Reporting (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada.
- Municipal Budget and Finance Manual, prepared by the League of Arizona Cities and Towns.
- Audits of State and Local Governmental Units, an industry audit guide published by the American Institute of Certified Public Accounts (AICPA).
- Government Accounting Standards, issued by the Comptroller General of the United States.
- U.S. Office of Management and Budget (OMB) Circular A-133, issued by the U.S. Office of Management and Budget.

Quarterly financial reports will be provided for all programs summarizing financial activity comparing actual revenues and expenditures with budgeted amounts.

A system of internal accounting controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions of the Town and compliance with applicable laws and regulations.

In accordance with State law, a comprehensive financial audit, including an audit of federal grants according to the Single Audit Act and the OMB Circular A-133, will be performed **annually** by an independent public accounting firm, with the objective of expressing an opinion on the Town's financial statements. The Town will prepare its financial statements in accordance with applicable standards and will account for its operations in a manner consistent with the goal of obtaining an unqualified opinion from its auditors.

The Town will prepare a Comprehensive Annual Financial Report (CAFR) in accordance with the principles and guidelines established by the Government Finance Officers Association "Certificate of Achievement for Excellence in Financial Reporting" program. Staff will issue the CAFR to the Town Council by the 2nd Council meeting in November and to the Government Finance Officers Association by **December 31st** of each year for the preceding fiscal year or as required by the Arizona Revised Statutes.

All programs will provide notice of all significant events and financial and related matters to the Chief Financial Officer for the Town's annual disclosures, as required by the SEC Rule 15c2-12, for the municipal markets, financial statements and bond representations. A listing of

significant events is included in **Appendix A** to this document. The Chief Financial Officer will notify all Nationally Recognized Municipal Securities Information Repositories of these significant events.

The Town's Comprehensive Annual Financial Report (CAFR) will include the bond related on-going disclosure requirements and will fully disclose all significant events and financial and related issues. The Town will provide the CAFR to the Town Council, rating agencies, municipal bond insurers, national bond disclosure repositories and other interested parties.

13. Policy Review

By their nature policies must change and evolve over time. As with any other policies, these financial policies should be subject to periodic review and revision. Accordingly, the Town Council will review and affirm the financial policies contained in this document every **3 years**.

Appendix A: Reporting of Significant Events (Continuing Disclosure Requirements)

If knowledge of the occurrence of a listed event would be material to the Town, the Town shall promptly file a "Notice of Material Event" with the Municipal Securities Rulemaking Board and with each depository. The following events are defined as significant events with respect to municipal securities:

- Principal and interest payment delinquencies.
- Non-payment related defaults.
- Unscheduled draws on debt service reserves reflecting financial difficulties.
- Unscheduled draws on credit enhancements reflecting financial difficulties.
- Substitution of credit or liquidity providers or their failure to perform.
- Adverse tax opinions or events affecting the tax-exempt status of the securities.
- Modifications to rights of holders (i.e., owners).
- Bond calls (which are other than mandatory or scheduled redemptions, not otherwise contingent upon the occurrence of an event are optional or unscheduled).
- Defeasances.
- Release, substitutions or sale of property securing repayment of the securities (including property leased, mortgaged or pledged as such security).
- Bond rating changes.