

COUNCIL DECISION REQUEST

SUBJECT: GASB Fund Balance Classification

MEETING DATE: July 7, 2011

PAYSON GOAL: NEW: EXISTING:

ITEM NO.:

TENTATIVE SCHEDULE:

SUBMITTED BY: Debra A Galbraith

AMOUNT BUDGETED: \$0.00

SUBMITTAL TO AGENDA

EXPENDITURE REQUIRED: \$0.00

APPROVED BY TOWN MANAGER

CONT. FUNDING REQUIRED: \$0.00



EXHIBITS (If Applicable, To Be Attached):
Revised Financial Policy FIN101

POSSIBLE MOTION

- 1) I move to approve the revised Financial Policy 101, describing the GASB required fund balance classifications and designating the Finance Manager, in consultation with the Town Manager, the ability to assign fund balance as required.

SUMMARY OF THE BASIS FOR POSSIBLE MOTION:

The Governmental Accounting Standards Board (GASB) has been making changes to the required format of governmental financial statements for many years. This is being done in an attempt to make governmental financial statements easier to understand and closer to the formats used by the private sector. The latest required change is effective after June 15, 2011. This changes breaks fund balance (assets – liabilities = fund balance) down into categories that give a clearer picture of how much of the fund balance is actually available for use and how much is restricted and what type of restrictions those are.

The new fund balance classifications are: 1) Non-spendable, 2) Restricted, 3) Committed, 4) Assigned and 5) Unassigned. The details of these classifications are covered in section 1.5 Financial Policy 101 (attached).

GASB also requires that the Town Council designate who has the authority to 'assign' fund balance. Financial Policy 101 gives that authority to the Finance Manager after consultation with the Town Manager.

Financial Policy 101, Section 1.5 is new and covers fund balance designations in detail.

PROS:

CONS:

PUBLIC INPUT (if any):

BOARD/COMMITTEE/COMMISSION ACTIONS/RECOMMENDATIONS (if any) (give dates and attach minutes):

JUL 07 2011 I.2

COUNCIL DECISION REQUEST

FUNDING:

Acct:	Budget:	Available:	Expense:	Remaining:
Acct:	Budget:	Available:	Expense:	Remaining:
Acct:	Budget:	Available:	Expense:	Remaining:
BA:				Date: _____



FINANCIAL POLICY No. FIN 101

PURPOSE

This financial policy provides administrative guidelines to the Financial Services Department, all Town Departments, Management and Town Council.

1.0 POLICY

This policy establishes the framework for overall fiscal planning, management reporting and investing. It sets forth guidelines against which current budgeting performance can be measured and proposals for future programs can be evaluated.

1.1 THE BUDGET PROCESS

1.1.1 INTRODUCTION

The adoption of the budget is one of the Town Council's most important activities. State of Arizona Statutes include some specific requirements regarding the adoption of the annual budget. The following policies are consistent with these statutes.

1.1.2 BUDGET CALENDAR

The budget calendar will follow the specific dates set forth by State of Arizona Statutes for completion of each task necessary to prepare and adopt the annual budget.

1.1.3 DECENTRALIZED BUDGET PROCESS

The budget process is intended to weigh all competing requests for Town resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process are not allowed.

The Town will utilize a decentralized budget process. All departments will be given an opportunity to participate in this budget process.



1.1.4 ALLOCATING BUDGET RESOURCES

The Town will utilize a “zero-based” resource allocation approach. Each department will have an opportunity to request personnel, goods, capital items and services needed to carry on its responsibility in an exemplary manner.

Special one-time revenue sources will be used to purchase non-recurring items like capital goods. One-time revenues will not be used to support items that will have a long-term operational impact on future Town expenditures.

For those special revenue funds supported by intergovernmental revenues and special purpose taxes, expenditures are limited strictly to the mandates of the funding source. These resources are not to be used to subsidize other funds, except as required or permitted by program regulations.

Addition of personnel will only be requested to meet program initiatives and policy directives after service needs have been thoroughly examined, and it is substantiated that additional staffing will result in increased revenues or enhanced operating efficiencies. To the extent possible, personnel cost reductions will be achieved through attrition.

Capital expenditures will be determined using the 5-year Capital Improvement Plan process (FIN 103), if funds are available. The expense amount attributable to equipment depreciation will be transferred into the Equipment Reserve fund and “Pay-as-you-go” funding will be used for equipment purchases under \$100,000, if funds are available, before considering lease/purchase debt service financing.

A contingency fund equal to five percent (5%) of the combined General & Streets Fund expenditure budget will be maintained annually in a Contingency budget. This fund will be available for unanticipated, unbudgeted expenditures and will require the Town Council’s approval to expend. The purpose of this account is to provide some flexibility for unforeseen events without the necessity to spend from the Town’s reserves.

As a component of the budget process and when fiscal resources permit, the Town Council may allocate funds to Outside Agency Providers for business, social, recreational or economic development, or promotional services. Outside Agency Providers must provide a service consistent with an existing recognized Town need, policy, goal, or objective.



1.1.5 BUDGETED FUNDS

Annual budgets are adopted for all funds except certain trust and agency funds, if applicable. Controls for trust and agency funds are achieved through stipulations in the trust agreements or by State or Federal agency requirements.

1.1.6 BALANCED BUDGET

The budget must be balanced for all budgeted funds. Total estimated expenditures for each of the governmental fund types must equal total anticipated revenues plus that portion of beginning of the year unreserved fund balance, in excess of the required fund balance reserve. Estimated expenses for proprietary fund types must equal total anticipated revenues and unreserved retained earnings.

1.1.7 FUND RESERVES

The Town will maintain a fund reserve for the general fund to pay expenditures caused by unforeseen emergencies, for shortfalls caused by revenue declines and to eliminate any short-term borrowing for cash flow purposes. This reserve shall be maintained at an amount that represents 5% of total General Fund operating budgeted revenues. Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level. This is in addition to the carryover balance discussed below.

The Town's general fund will maintain a year-to-year "carryover balance" in an amount necessary to maintain adequate cash flow and to reduce the demand for short-term borrowing. The carryover balance will equal 90 days operating expenditures from the prior year.

All other funds must never incur a negative fund balance.

Reserve funds in the Water utility operating fund should equal 5% of prior year total operating expenses and have a carry-over balance equal to 90 days prior year operating expenses.

The Town will establish an equipment reserve fund and when fiscal resources permit, will appropriate funds to it annually to provide for the timely replacement of equipment.



All expenditures drawn from reserve accounts shall require prior Town Council approval unless previously specifically authorized by the Town Council for expenditure in the annual budget.

1.1.8 THE BUDGETARY BASIS OF ACCOUNTING

Budgets for governmental fund types will be adopted on a basis of accounting consistent with generally accepted accounting principles (GAAP). Revenues are recognized when they become measurable and available, and expenditures are encumbered against the budget when they become measurable, or a liability has been incurred, and the liability will be liquidated with current resources. All outstanding expenditures are charged to the budget in the year initially incurred.

1.1.9 APPROPRIATIONS AT YEAR-END

All budgeted expenditures not authorized by a purchase order lapse at year-end. Expenditures placed with an authorized purchase order before year-end must be invoiced by June 30 and must be paid within 30 calendar days of the close of the fiscal year. Expenditures not paid within this time frame are then charged against the new year's budget.

1.1.10 THE LEGAL LEVEL OF BUDGETARY CONTROL

The budget shall be adopted at the fund level.

The State of Arizona Expenditure Limitation statute requires that the budget cannot be increased after final adoption. Expenditures may not exceed the budgeted total of the fund without the Town Council's approval. If approved, an additional Town Council approval is needed for payment from the Contingency fund to cover the overage.

The budgeted amount for salaries and benefits for each department may not be increased without the approval of the Town Council.

Department heads may request the reallocation of appropriations within a department from one item to another (other than increasing salaries, benefits, and capital improvement projects), subject to the approval of the Town Manager.

The Town Manager, subject to Town Council approval, may reallocate appropriations between departments.



The adopted budget cannot be amended in any way without the approval of Town Council.

1.1.11 BUDGETARY REPORTING SYSTEM

The Town will maintain a budgetary control system to ensure adherence to the budget and will prepare timely monthly financial reports comparing actual revenues and expenditures with budgeted amounts. These reports will be distributed to the Town Manager, department heads and will be included in one Council agenda packet per month.

The budgetary reporting system will conform to the Government Finance Officer's Association standards for financial reporting and budgeting, the Governmental Accounting Standards Board as well as any other professional standards as required.

1.2 **FINANCIAL REPORTING POLICY**

The town is required to have an annual audit for its financial statements. The following provides policy guidance regarding accounting, general audit and financial reporting.

1.2.1 ACCOUNTING AND REPORTING STANDARDS

The Financial Services Department will establish and maintain a high standard of accounting practices. Accounting standards will conform to current generally accepted accounting practices (GAAP) as promulgated by the Governments Accounting Standards Board (GASB) and will follow industry best practices as applicable.

1.2.2 ANNUAL AUDIT

An annual audit will be conducted and budgeted for in the general fund and any other fund requiring intensive auditing work as part of the creation of the Town financial statements.

All general purpose, combining and individual fund, and account group statements and schedules shall be subject to a full scope audit.

All Town departments are subject to audit for compliance with the laws and statutes of the State of Arizona and the policies of the Town of Payson.



All state, federal and local grant funding is subject to a financial and compliance audit.

Every five (5) years, the Town will issue a request for audit services to all qualified audit firms located within the state of Arizona.

The award of auditing services will be made solely on the response to the request for proposal.

After an auditing firm has been chosen, an auditing services contract will be approved by the Town Council.

1.2.3 FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) will be prepared by Town staff and will be used by the auditors during the audit process.

Each year, the CAFR will be submitted to the Government Finance Officer's Association national award program.

1.2.4 POPULAR REPORT

Town staff will create and publish an annual Popular Report (PAFR). The PAFR is a condensed, easy to read financial statement.

Each year, the PAFR will be submitted to the Government Finance Officer's Association national award program.

1.2.5 BUDGETARY REPORTING

The budgetary reporting system will conform to the Government Finance Officer's Association standards for financial reporting and budgeting, the Governmental Accounting Standards Board (GASB) and other professional standards

1.2.6 MONTHLY REPORTS

The Town will maintain a budgetary control system to ensure adherence to the budget and will prepare timely monthly financial reports comparing actual revenues and expenditures with budgeted amounts. These reports will be distributed to the Town Manager, department heads and will be included in one Council agenda packet per month.



1.2.7 ANNUAL BUSINESS PLAN

A Town-wide annual business plan will be completed each year after the Corporate Strategic Plan has been updated by the Town Council. The annual business plan will provide a statement as to what is anticipated to be accomplished toward the strategic goals based on the allocation of estimated resources in the budget for the new fiscal year.

The business plan helps determine the departmental budgets, sets the direction for staff focus in the upcoming fiscal year and creates performance measures that can be used to evaluate the effectiveness of the business plan.

1.2.8 ANNUAL BUDGET DOCUMENT

Following the adoption of the annual budget, staff will create and publish the annual budget document.

Each year, the budget document will be submitted to the Government Finance Officer's Association national award program.

1.2.9 HISTORICAL TREND ANALYSIS

Town staff will update the Historical Trend Analysis after the financial statements and the audit is completed. This analysis is based on the International City/County Management Association (ICMA) Financial Trend Monitoring System (FTMS).

The Historical Trend Analysis document will be distributed to the Town Council and available to the public upon completion.

1.3 FISCAL STABILITY POLICY

The Town levies a sales tax, assesses business license fees, receives state-shared revenues and franchise fees and, collects assessments on real property within certain improvement districts. In addition, the Town assesses user charges for the water utility, building and code services, public works services and recreation programs and services. The Town has many expenditures as well. The following policies provide guidance regarding the assessing and collecting of these revenues, using those revenues to pay expenditures and maintaining a healthy balance between them.



1.3.1 REVENUES

The Town will attempt to maintain a diversified and stable revenue stream to shelter it from short-run fluctuations in any single revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of economic downturns.

The Town will strive to keep the revenue system simple, which will result in a decrease of compliance costs for the taxpayer or service recipient and a corresponding decrease in avoidance to pay.

The revenue system of the Town will strive to maintain equity in its structure to avoid a disproportionate burden levied on a particular taxpayer group. The Town will seek to minimize or eliminate all forms of subsidization between entities, funds, services, and customers. However, it is recognized that public policy decisions may lead to subsidies in certain circumstances.

The Town will strive to structure its tax base to retain and promote business and industry.

1.3.2 REVENUE DECLINES

For short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow, expenditure reductions or restrictions may be imposed. Council may approve a contribution from reserves, inter-fund loans and/or, transfers from the Rainy Day fund to address temporary downturns in Town revenue. Inter-fund loans may be utilized to cover temporary gaps in cash flow.

Deficit financing and borrowing to support on-going operations is not the policy of the Town as a response to long-term (greater than one year) revenue shortfalls. Revenue projections will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.



1.4 REVENUE AND EXPENDITURES

1.4.1 USER CHARGES

The Town will establish fees and user charges at a level related to the total cost of providing that service, although fees may be set at a rate that does not recover the total cost of the program.

When establishing user charges, the following issues must be considered:

- 1) Cost of service
- 2) Pricing to encourage or limit demand
- 3) Identifiable benefits
- 4) Discourage waste

When imposing new fees and/or charges, the proposed fee/charge should be examined using the following criteria:

- 1) Sufficiency – Fees/charges should recover the full cost of issuance, administration, and enforcement, recognizing that adjustments may be necessary for the benefit of the public.
- 2) Efficiency – Fees/charges should be designed for easy, inexpensive administration by the Town and easy, inexpensive compliance by the individual/business paying the fee/charge.
 - A minimum of the revenue raised through collection of a fee/charge should be consumed in the process of raising it.
- 3) Simplicity – Fees/charges will be developed for easy understanding by the payee and Town officials, leaving as small a margin as possible for subjective interpretations.

Town staff will review all fees and charges annually in order to keep pace with the cost of providing that service.



1.4.2 UTILITY RATES

Utility user charges for the water utility will reflect the cost of service and will be established so that operating revenues are at least equal to operating expenditures. A portion of the user rates will cover the replacement of the utility facilities.

The utility will periodically conduct a comprehensive rate study. In each of the intervening years, the staff will review and update the current study.

The overhead fee is a payment from all Enterprise funds to the General Fund for the cost of overhead charges attributed to that Enterprise fund.

The amount of each year's overhead fee will be based on the estimated General Fund expenditures that represent the direct and indirect services provided to the Enterprise fund, less those that are billed directly to those funds.

The utility will maintain a reserve to meet unforeseen emergencies. This reserve shall be separate from the carryover balance. The carryover balance should be sufficient to maintain adequate cash flow and to reduce the demand for short-term borrowing. (See Financial Policy 1-101 Section 1.1.7 Fund Reserves).

1.4.3 REVENUE COLLECTION

The Town will follow an aggressive, but humane policy of collecting revenues. Unpaid billings will be sent to a collection agency or collected through the Town's own efforts after proper notice is given. Liens or credit report filings may also be used as a means of collections. All adjusted uncollectible accounts will be pursued to the limit of collector ability to maintain a goal of no more than .5% of 1% of the total revenue being adjusted for bad debt annually.

An understanding of the revenue sources increases the reliability of the revenue system. The Town will review its revenue sources and enact consistent collection policies so that assurances can be provided that the revenue base will materialize according to budget.



1.4.4 REVENUE HANDBOOK

A revenue handbook may be maintained annually. This handbook will be utilized to adjust for fees and user charges. The handbook will include at least the following information:

- 1) Revenue sources
- 2) Legal authorization
- 3) Method of collection
- 4) Rate or charge history
- 5) Total revenue history

1.4.5 GRANT/DEVELOPER FUNDING

The Town will seek state/federal grants and developer contributions for funding projects. Grants and contributions will not be budgeted unless the

funding source has been identified and an application is contemplated to be submitted.

All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified or obtained.

Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted, unless the Town has the ability to continue to fund the program with available revenues.

1.4.6 EXPENDITURES

The Town will only propose operating expenditures that can be supported from on-going operating revenues. Before the Town undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years with the aid of strategic planning models.

Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impact of capital expenditures will be reviewed for compliance with this policy provision.



Department heads are responsible for managing their budgets within the total appropriation for their department.

The Town may assess funds for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund performing the service. Inter-fund service fees charged to recover these costs will be recognized as revenue to the providing fund. A review of the method for determining the amount of the inter-fund assessment will be reviewed as least every 3 years.

1.4.7 ADDITIONS TO PERSONNEL

Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The Town will invest in technology and other efficiency tools to maximize productivity. The town will hire additional staff only after the need of such positions has been demonstrated and documented.

All compensation planning will focus on the total cost of compensation that includes direct salary, health care benefits, pension contributions, and other benefits of a non-salary nature that are a cost to the Town.

1.4.8 BUDGETED CAPITAL ASSET MAINTENANCE

The Town shall continue to support a scheduled level of maintenance and replacement of its infrastructure and fleet.

The Town will maintain its physical assets at a level adequate to protect the Town's capital investment and minimize future maintenance and replacement costs. The adopted operating budget will provide sufficient resources for the regular repair and maintenance of capital assets.

1.4.9 FINANCIAL PROJECTIONS

Financial projects for both revenue and expenditures are established in accordance with the policies set forth in Financial Policy 101.

The Town reviews the prior and current years' revenue/expenditures by line item to prepare the next year annual budget projections.

Revenue projections for major revenues (those which represent at least 10% of the General Fund) will present conservative, optimistic and best



estimate projections. The projections shall be based on the best information available at the time.

Revenue projections will assess the full spectrum of resources that can be allocated for public services. Each year the Council shall review potential sources of revenue as part of the annual budget process.

1.5 FUND BALANCE

1.5.1 CLASSIFICATION

The Town implemented Governmental Accounting Standards Board (GASB) Statement 54 for the reporting period after June 15, 2010. The objective of this Statement is to improve the usefulness, including understandability, of governmental fund balance information. Fund balance information is displayed as non-spendable, restricted, committed, assigned, and unassigned.

- A) *Non-spendable* fund balance classification includes amounts that cannot be spent because they are either a) not in a spendable form or b) legally or contractually required to be maintained intact.
- B) *Restricted* when constraints are placed on the use of resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the government to assess. Levy, charge, or otherwise mandate payment of resources from external resource providers and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation.

Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for the purpose specified by the legislation.

- C) *Committed* fund balances are resources pursuant to constraints imposed by formal action of the government's highest level of decision making authority. These resources cannot be used for any other purpose unless the same authority takes formal action to change the use.



Payson's highest level of decision making authority is the Town Council. Actions taken to impose constraints on fund balance shall be by Ordinance or Resolution adopted by the Town Council.

- D) *Assigned* fund balance amounts are constrained by the government's intent to be used for specific purpose. Intent must be expressed by a) the governing body itself or b) a committee or official which the governing body has delegated the authority to assign amounts to be used as for a specific purpose.

Assigned fund balance shall be determined by the Finance Manager in consultation with the Town Manager.

- E) *Unassigned* fund balance is the residual classification for the general fund. This is the balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

1.5.2 USE OF FUND BALANCE

It is the policy of the Town to expend fund balance in the following order:

- 1) Restricted – per external requirements
- 2) Committed – per Council requirements
- 3) Assigned
- 4) Unassigned

Any expenditure that could fall within multiple fund balance classifications will follow the order above.

1.6 INVESTMENT POLICY

1.6.1 BANKING SERVICES

Every five (5) years, the Town will issue a request for banking services to all qualified banks located within the Town's geographic boundaries.

The award of banking services will be made solely on the response to the request for proposal.

After a depository has been chosen, a banking services contract will be approved by the Town Council.



1.6.2 INVESTMENTS

The Town's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio.

Cash temporarily idle is invested in the Local Government Investment Pool (LGIP) established pursuant to Section 35-326 Arizona Revised Statutes and operated by the Arizona State Treasurer.

1.6.3 INVESTMENT REQUIREMENTS

The Town invests all idle funds in the Local Government Investment Pool (LGIP) established by the by the state pursuant to A.R.S. 35-326.

Other eligible investments are: (A.R.S. 35-323)

- 1) Certificates of deposit in eligible depositories.
- 2) Certificates of deposit in one or more federally insured banks or savings and loan associations in accordance with the procedures prescribed in section A.R.S. 35-323.01.
- 3) Interest-bearing savings accounts in banks and savings and loan institutions doing business in this state whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are secured by the eligible depository to the same extent and in the same manner as required under this article.
- 4) Repurchase agreements with a maximum maturity of one hundred eighty days.
- 5) The pooled investment funds established by the state treasurer pursuant to section A.R.S. 35-326.
- 6) Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
- 7) Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns or school districts.
- 8) Bonds, notes or evidences of indebtedness of any county, municipal district, municipal utility or special taxing district within this 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, but only if no default in payment on principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if such obligations were issued less than five years before the date of investment, no default in payment of principal or interest has occurred on the obligations to be purchased nor any other obligations of the issuer within five years of the investment.

- 9) Bonds, notes or evidences of indebtedness issued by any county improvement district or municipal improvement district in this 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. An investment shall not be made if:
 - (a) The face value of all such obligations, and similar obligations outstanding, exceeds fifty per cent of the market value of the real property, and if improvements on which the bonds or the assessments for the payment of principal and interest on the bonds are liens inferior only to the liens for general ad valorem taxes.
 - (b) A default in payment of principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if the obligations were issued less than five years before the date of investment, a default in the payment of principal or interest has occurred on the obligations to be purchased or on any other obligation of the issuer within five years of the investment.
- 10) Commercial paper of prime quality that is rated "P1" by Moody's investors service or rated "A1" or better by Standard and Poor's rating service or their successors. All commercial paper must be issued by corporations organized and doing business in the United States.
- 11) Bonds, debentures and notes that are issued by corporations organized and doing business in the United States and that are rated "A" or better by Moody's investor service or Standard and Poor's rating service or their successors.



1.6.4 ELIGIBLE DEPOSITORY REQUIREMENTS

Certificates of deposit shall be purchased from the eligible depository bidding the highest permissible rate of interest. No monies over one hundred thousand dollars may be awarded at any interest rate less than one hundred three per cent of the equivalent bond yield of the offer side of United States treasury bills having a similar term. If the eligible depository offering to pay the highest rate of interest has bid only for a portion of the monies to be awarded, the remainder of the monies shall be awarded to eligible depositories bidding the next highest rates of interest.

An eligible depository is not eligible to receive total aggregate deposits from this state and all its subdivisions in an amount exceeding twice its capital structure as outlined in the last call of condition of the superintendent of financial institutions.

If two or more eligible depositories submit bids of an identical rate of interest for all or any portion of the monies to be deposited, the award of the deposit of the monies shall be made to the eligible depository among those submitting identical bids having, at the time of the bid opening, the lowest ratio of total public deposits in relation to its capital structure.

Each bid submitted, and not withdrawn prior to the time specified, constitutes an irrevocable offer to pay interest as specified in the bid on the deposit, or portion bid for, and the award of a deposit in accordance with this section obligates the depository to accept the deposit and pay interest as specified in the bid pursuant to which the deposit is awarded.

The treasurer shall maintain a record of all bids received and shall make available to the board of deposit at its next regularly scheduled meeting a correct list showing the bidders, the bids received and the amount awarded. These records shall be available to the public and shall be kept in the possession of the treasurer for not less than two years from the date of the report.

Any eligible depository, before receiving a deposit in excess of the insured amount under this article, shall deliver collateral for the purposes of this subsection equal to at least one hundred one per cent of the deposit. The collateral shall be any of the following:

- 1) A bond executed by a surety company that is approved by the treasury department of the United States and authorized to do business in this



Town of Payson, Arizona
Financial Policy Manual

GENERAL FINANCIAL POLICY FIN 101

Created: May 2009

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state. The bond shall be approved as to form by the legal advisor of the treasurer.

- 2) Securities or instruments of the following character:
 - (a) United States government or agency obligations.
 - (b) State, county, school district and other district municipal bonds.
 - (c) Registered warrants of this state, a county or other political subdivisions of this state, when offered as security for monies of the state, county or political subdivision by which they are issued.
 - (d) First mortgages and trust deeds on improved, unencumbered real estate located in this state. No single first mortgages or trust deeds may represent more than ten per cent of the total collateral. The treasurer may require that the first mortgages or trust deeds comprising the total collateral security be twice the amount the eligible depository receives on deposit. First mortgages or trust deeds qualify as collateral subject to the following limitations:
 - (i) The promissory note or other evidences of indebtedness secured by such first mortgage or trust deed shall have been in existence for at least three years and shall not have been in default during this period.
 - (ii) An eligible depository shall at its own expense execute, deposit with the treasurer and record with the appropriate county recorder a complete sale and assignment with recourse in a form approved by the attorney general, together with an unconditional assumption of obligation to promptly pay to the entitled parties public monies in its custody upon lawful demand and tender of resale and assignment.

Eligible depositories may deposit the security described in this subdivision with the state treasurer, and county, city or town treasurers may accept the security described in this subdivision at their option.

The safekeeping receipt of a federal reserve bank or any bank located in a reserve city, or any bank authorized to do business in this state, whose combined capital, surplus and outstanding capital notes and debentures on the date of the safekeeping receipt are ten million dollars or more, evidencing the deposit therein of any securities or instruments described in



this section. A safekeeping receipt shall not qualify as security, if issued by a bank to secure its own public deposits, unless issued directly through its trust department. The safekeeping receipt shall show upon its face that it is issued for the account of the treasurer and shall be delivered to the treasurer. The safekeeping receipt may provide for the substitution of securities or instruments which qualify under this section with the affirmative act of the treasurer.

The securities, instruments or safekeeping receipt for the securities, instruments or warrants shall be accepted at market value if not above par, and, if at any time their market value becomes less than the deposit liability to that treasurer, additional securities or instruments required to guarantee deposits shall be deposited immediately with the treasurer who made the deposit and deposited by the eligible depository in which the deposit was made.

The condition of the surety bond, or the deposit of securities, instruments or a safekeeping receipt, must be such that the eligible depository will promptly pay to the parties entitled public monies in its custody, upon lawful demand, and will, when required by law, pay the monies to the treasurer making the deposit.

Notwithstanding the requirements of this section, any institution qualifying as an eligible depository may accept deposits of public monies to the total then authorized insurance of accounts, insured by federal deposit insurance, without depositing a surety bond or securities in lieu of the surety bond.

An eligible depository shall report monthly to the treasurer the total deposits of that treasurer and the par value and the market value of any pledged collateral securing those deposits.

When a security or instrument pledged as collateral matures or is called for redemption, the cash received for the security or instrument shall be held in place of the security until the depository has obtained a written release or provided substitute securities or instruments.

The surety bond, securities, instruments or safekeeping receipt of an eligible depository shall be deposited with the treasurer making the deposit, and he shall be the custodian of the bond, securities, instruments or safekeeping receipt. The treasurer may then deposit with the depository public monies then in his possession in accordance with this article, but



not in an amount in excess of the surety bond, securities, instruments or safekeeping receipt deposited, except for federal deposit insurance.

The following restrictions on investments are applicable:

- 1) An investment of public operating fund monies shall not be invested for a duration of longer than three years.
- 2) The board of deposit may order the treasurer to sell any of the securities, and any order shall specifically describe the securities and fix the date upon which they are to be sold. Securities so ordered to be sold shall be sold for cash by the treasurer on the date fixed in the order, at the then current market price. The treasurer and the members of the board are not accountable for any loss occasioned by sales of securities at prices lower than their cost. Any loss or expense shall be charged against earnings received from investment of public funds.

If the total amount of subdivision monies available for deposit at any time is less than one hundred thousand dollars, the subdivision board of deposit shall award the deposit of the funds to an eligible depository in accordance with an ordinance or resolution of the governing body of the subdivision.

1.6.5 CERTIFICATE OF DEPOSIT CONDITIONS

If an investing entity invests in certificates of deposit pursuant to section 9-492, subsection C, section 15-1025, subsection B, paragraph 7, section 35-313, subsection A, paragraph 13 or section 35-323, subsection A, paragraph 2, the investing entity in each case shall invest those monies in accordance with all of the following conditions:

- 1) The monies are initially invested through an eligible depository in this state selected by the investing entity.
- 2) The selected eligible depository arranges for the deposit of the monies in certificates of deposit in one or more federally insured banks or savings and loan associations wherever located, for the account of the investing entity.
- 3) The full amount of principal and any accrued interest of each certificate of deposit is insured by the federal deposit insurance corporation.



- 4) The selected eligible depository acts as custodian for the investing entity with respect to the certificates of deposit issued for its account.

- 5) At the same time that the investing entity's monies are deposited and the certificates of deposit are issued, the selected eligible depository receives an amount of deposits from customers of other federally insured financial institutions equal to or greater than the amount of the monies initially invested by the investing entity through the selected eligible depository.

Monies invested in accordance with all of the conditions prescribed in this section are not subject to any security or collateral requirements.

1.6.6 INVESTMENT IN SINKING FUNDS

The governing body of a municipality may invest its sinking funds in United States, state, or county bonds or in bonds, debentures or other obligations issued by the federal land banks, the federal intermediate credit banks or the banks for cooperatives. (A.R.S. 9-492)

The governing body of a municipality may invest its surplus or idle funds in United States treasury bills, notes or bonds which have a maturity date of not more than one year from the date of investment and in accounts of any savings and loan association insured by an agency of the government of the United States, up to the amount of such insurance. (A.R.S. 9-492)

The governing body of a municipality may invest its surplus or idle funds in accordance with the procedures prescribed in section 35-323.01. (A.R.S. 9-492)

All sinking funds of this state, or a county, city, town or school district, or hospital, irrigation or drainage district organized as provided by law may be invested and reinvested by the governing body or officer in charge of the sinking funds. The investment shall be made for the best interests of the state or political subdivision described in this subsection. (A.R.S.35-328)

In the absence of specific direction in the bond indenture, the funds may be invested or reinvested in any of the investment securities allowed for trust funds. (A.R.S.35-328)



2.0 DEFINITIONS

Agency pool participant - a subdivision or an entity of a subdivision that has monies maintained by the treasurer and that has the authority to draw negotiable instruments on the treasurer or make other disbursements from monies that the treasurer holds for the subdivision or entity. (A.R.S. 35-321)

Board of Deposit - Common Council. (A.R.S. 35-321)

Capital Structure - amount of the capital of the eligible depository shown by the latest call statement of condition as defined by rule of the superintendent of financial institutions for the purpose of administration of this article. (A.R.S. 35-321)

Collecting Entity - entity from which the treasurer receives general funding including the county for collections performed by a county treasurer, the city for collections performed by a city treasurer or the district for collections performed by a district treasurer. (A.R.S. 35-321)

Elastic Revenue – Revenue types that are highly responsive to changes in the economic base and inflation. Example: Sales taxes.

Enabling Legislation - authorizes the government to assess. Levy, charge, or otherwise mandate payment of resources from external resource providers and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation.

Eligible Depository - any:

- (a) Commercial or savings bank or savings and loan association having either a branch in this state or its principal place of business in this state and insured by the federal deposit insurance corporation or its successor or any other insuring instrumentality of the United States according to the applicable federal law.
- (b) Credit union that is insured by the national credit union administration or its successor. (A.R.S. 35-321)

Inelastic Revenue – Revenues types that are not affected by changes in economic base and inflation. Example: Permit fees.

Investing Entity - the state, a political subdivision, the governing body of a municipality or the governing body of a school district. (A.R.S. 35-323.01)



Legal Enforceability - A government can be compelled by an external party to use resources created by enabling legislation only for the purpose specified by the legislation.

Permissible Rate of Interest - rate of interest which an eligible financial institution is permitted to pay by state or federal law or valid state rules or federal regulations. (A.R.S. 35-321)

Public Deposit - public monies deposited in an eligible depository pursuant to this article. (A.R.S. 35-321)

Public Monies - includes subdivision monies. (A.R.S. 35-321)

Subdivision - any county, non-charter city or town. Cities governed by charter have the option of operating under this article. (A.R.S. 35-321)

Subdivision monies - all monies in the treasury of a subdivision or coming lawfully into the possession or custody of the treasurer. (A.R.S. 35-321)

Treasurer - includes the treasurer or officer exercising the functions of treasurer of any subdivision but excludes the state treasurer. (A.R.S. 35-321)

Trust Funds - those monies entrusted to a public body or official for preservation and investment, as prescribed by the instrument establishing such funds. (A.R.S. 35-321)

3.0 REFERENCES

Arizona Revised Statutes:

9 - 492 Cities and Towns

15 - 1025 Education

35 - 313; 35 - 323; 35 - 326; 35 - 328 Public Finances