ORDINANCE 2009-A366
AN ORDINANCE OF THE MAYOR AND COMMON COUNCIL
OF THE TOWN OF CAMP VERDE,
YAVAPAI COUNTY, ARIZONA,
Amending Town Code Chapter 3, Administration,
Adding Section 3-4 Financial Policies

Section 1. Adoption by Reference. Pursuant to ARS §9-802 (as amended) the Town hereby adopts for application and enforcement **Section 3-4, Fiscal Policies, of the Town Code**, dated July 15, 2009.

Section 2. Effective Date. The effective date of the amendments to the **Town of Camp Verde Town Code,** dated July 15, 2009, shall be August 15, 2009, or upon completion of publication and posting as a penal ordinance as provided by law, whichever date is later.

Section 3. Repeal. The **Town of Camp Verde Town Code** generally excludes ordinances concerning zoning, taxation, or adoption of intergovernmental agreements.

Section 4. Copies of the Town Code. At least three (3) copies of the **Town of Camp Verde Town Code,** dated July 15, 2009, and any future amendments or revisions, shall be kept on file in the Office of the Town Clerk for public access. Additional copies may be purchased by the public at a nominal fee for materials and reproduction. Copies place for public access shall be readily available for public inspection during normal working hours. Copies are also available on the Town of Camp Verde webpage.

Section 5. Penalty. Pursuant to ARS §9-240.B.29 and ARS §13-602, it is hereby declared that any violation of the **Town of Camp Verde Town Code,** dated July 15, 2009 and revisions adopted thereto is a Class 2 misdemeanor, with punishment as provided by law, unless otherwise specified within a particular section of the **Town Code.**

Passed and adopted by a majority vote of the Mayor and Common Council of the Town of Camp Verde in an open meeting on the 15th day of July, 2009, to be effective when the publication, posting, pursuant to ARS §9-813 is completed.

Mayor Bob Burnside

Approved as to form:

Town Attorney

Attest:

Deborah Barber, Town Clerk

7-22-09
Date

RESOLUTION 2009-775

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CAMP VERDE, YAVAPAI COUNTY, ARIZONA, ADOPTING AND DECLARING AS A PUBLIC RECORD THAT CERTAIN DOCUMENT FILED WITH THE TOWN CLERK AND ENTITLED, "TOWN OF CAMP VERDE FINANCIAL POLICIES AND PROCEDURES.

WHEREAS, The Town of Camp Verde desires to create a guide for Financial Policies and Procedures; and

WHEREAS, it is critical to the successful operation of any public or private organization and agency to establish rules, standards, and norms that define financial policies and procedures,

NOW THEREFORE, the Mayor and Common Council of the Town of Camp Verde do hereby resolve that certain document entitled "Town of Camp Verde Financial Policies and Procedures" is declared to be a public record, and said copies are ordered to remain on file for distribution to the public.

PASSED AND ADOPTED in open meeting by the Mayor and Common Council of the Town of Camp Verde, Yavapai County, Arizona, on the 15th day of July 2009.

Approved as to form:

Bob Burnside, Mayor

Town Attorney

Attest:

Deborah Barber

Deborah Barber, Town Clerk

Date: 7-23-09

Chapter 3
ADMINISTRATION

Section 3-4
Financial Policies

Section 3-4-1 Budget Policy
The Town of Camp Verde has a responsibility to its citizens to carefully account for public funds, manage the finances wisely, and plan for adequate funding of services that are desired by the public.

The following budget policy provides guidance for preparing the Town of Camp Verde's annual budget (all funds) as well as adoption, implementation, and monitoring of the budget.

Section 3-4-1.1 Budget Philosophy
The Town of Camp Verde's budget philosophy includes funding the service delivery system using the resources provided through current revenue collection while planning for future needs through capital funding and maintenance.

Section 3-4-1.2 Balanced Budget
Arizona law (Title 42 Arizona Revised Statutes) requires the Town Council to annually adopt a balanced budget. The Town of Camp Verde will develop a balanced budget where projected revenues meet or exceed projected expenditures. In the event that projected revenues are not adequate to sustain the service delivery system desired by the Town's citizens, a draw on fund balance may be authorized by the Town Council. In addition, the Town will not use one-time (non-recurring) revenues to fund continuing (recurring) expenditures.

Section 3-4-1.3 Budget Process

A. The budget process begins in February with an off-site retreat of Council Members and Department Heads to discuss the departments' priorities and obtain guidance from Council on strategic objectives and special funding requests.

B. In March, the Finance Department compiles information, makes projections, and completes non-departmental revenue estimates. Based on the revenue estimates projected, the Finance Department determines the subsidy allocation to be provided to each department through a General Fund Subsidy Allocation. These allocations are distributions of the monies provided from general purpose revenues (non-departmentally generated revenues) to help fund the department's operations. A meeting is held with the Department Heads to convey the budget direction, discuss the budget process, and explain the General Fund Subsidy Allocation amounts allocated to each department.

C. Department Heads develop the budgets for their departments as they best understand the operational needs of their departments. The Finance Department completes the salary related projections for the Manager's Recommendation column and will provide estimates for Department Heads relating to current and requested staffing levels.

D. In April, Department Heads submit their completed budget requests to the Finance Department for compilation of the budget work papers. Individual meetings are held with each of the Department Heads to discuss their budget requests and to assure that the Departments' narratives are complete.

E. In May, the draft budget is distributed to Council Members and Department Heads. Budget Work Sessions are held to present each budgetary unit to Council, answer questions that may arise, make adjustments as directed, and obtain Council's preliminary approval of the requests. The Finance Department makes final adjustments to the budget and verifies that all information is properly included in the budget document.

F. In June, the Tentative Budget is approved by Council and the budget is advertised in the local newspapers for two consecutive weeks.

G. In July, Public Hearings on the Tentative Budget are held. If no changes have been directed, the Final Budget is adopted and implemented.

Section 3-4-1.4 Budget Amendment Policy
Once the tentative budget is adopted, the expenditure limitation amount is set for the fiscal year. The Town Council may not approve additional appropriations above that amount. Throughout the fiscal year, amendments may be made to the adopted budget. All budget amendments must be approved by the Town Council. Budget amendments include, but are not limited to, transfers of appropriations between departments, transfers of appropriations from the Contingency to departments and/or funds, and transfers of appropriations between funds.

Section 3-4-1.5 Budget Monitoring

A. The Finance Department, along with each Department Head, monitors the budget continuously throughout the fiscal year. The Town focuses on the object level (total salary expenditures, total operational expenditures, etc) of tracking rather than focusing on the sub-object level (each specific line item). This means that instead of tracking each line item to ensure that it remains within the budget appropriation, the focus is on whether the Department as a whole operates within its total budget appropriation.
B. Revenue projections are monitored monthly and statistically projected throughout the remainder of the fiscal year to determine the need to decrease expenditure appropriations in order to maintain a balanced budget.
C. Financial reports are given to the Town Council and Department Heads monthly detailing the status of each department and the Town as a whole. Along with these reports, the Finance Department also presents a report to Council detailing the revenue projections through the end of the fiscal year and makes recommendations as needed to decrease appropriated expenditures, as a result of any shortfall in our revenue base, which may materialize.

Section 3-4-1.6 Budget Calendar

In February of each year, the Finance Director shall brief Council and obtain approval of the budget calendar for the following fiscal year.

Section 3-4-1.7 Fund Accounting

The Town utilizes fund accounting, which is a method of tracking revenues and expenditures based on restrictions being placed on the revenues requiring that they be used for specific purposes only. Each fund is considered a separate accounting entity. All funds except agency funds are included in the budget document. Agency funds are not required to be included in the budget document as they are monies belonging to separate entities, which the Town holds in trust for them.

Section 3-4-1.8 Governmental Funds

A. **General Fund** - The General Fund is the main operating fund of the Town of Camp Verde. It accounts for the majority of the departments within the Town.

B. **Special Revenue Fund** - Special Revenue Funds are separate accounting records used to track revenues (and the related expenditures) that are legally restricted for specific purposes.

C. **Debt Service Fund** - Debt Service Fund is used to account for the funding allocations and the payments of general long-term debt principal, interest and related costs.

D. **Capital Project Fund** - Capital Project Funds are used to track the financial resources to be used for the acquisition or construction of capital assets. A capital asset is defined by the Town as any item with an extended useful life whose purchase price (or value if donated) is $5,000 or more.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Measurable means that the amount of the transaction can be determined. Available means that the funds are collectible within the current period or soon thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred.

Section 3-4-1.9 Fiduciary Funds

A. **Agency Fund** - The Agency Fund is used to account for monies belonging to other agencies that the Town holds in a trustee capacity. This currently consists of monies held for the Grasshopper Swim Team and Special Olympics.
B. **Fiduciary Funds** are accounted for using the accrual basis of accounting. This method of accounting recognizes the financial effects of transactions and other events and circumstances that have cash consequences in the periods in which transactions, events, and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

Section 3-4-1.10 Budget Basis

The Town maintains its financial records in accordance with Generally Accepted Accounting Principals (GAAP) for government entities. The budgets of General Government Funds are prepared on a modified accrual basis. This includes all fund types managed by the Town of Camp Verde.

Section 3-4-2 Debt Policy

The Town utilizes 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 cost 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 polices are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, State Statutes, City Charter, federal tax laws, and the Town's current bond resolutions and covenants.

All projects funded with General Obligation Bonds or Revenue Bonds can only be undertaken after voter approval through a town-wide bond election.

Section 3-4-2.1

1. The overall debt management policy of the Town is to ensure that financial resources of Town are adequate in any general economic situation to not preclude the Town's ability to pay its debt when due.
2. 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 "pay as you go" capital financing.
3. The Town does not intend to issue commercial paper (CP) or bond anticipation notes (BANs) for periods longer than two 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.
4. 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.
5. Whenever the Town finds it necessary to issue revenue bonds, the following guidelines will be adhered to:
    a. 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, that debt service is deemed to be revenue bonds and are excluded from the calculation of the annual debt service limitation.
    b. Revenue Bonds of the Town will be analyzed carefully by the Finance Department for fiscal soundness. The issuance of Revenue Bonds will be subject to the most careful review and must be secured by covenants sufficient to protect the bondholders and the name of the Town.
    c. Revenue Bonds should be structured to provide level annual debt service over the life of the issue.
    d. Debt Service Reserve Funds should be provided when required by rating agencies, bond insurers, or existing bond covenants.
    e. 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.
    f. 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.
    g. The target for the term of Revenue Bonds will typically be between twenty and thirty 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 twelve and one half (12 1/2) years.
6. 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 and business districts desiring improvements to their property such as roads, water lines, sewer lines, streetlights, 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 specific criteria. Both ID and CFD Bonds will be utilized only when it is expected that they will be outstanding for their full term.
7. 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 $750,000, or for the purpose of modifying restrictive covenants or to modify the existing debt structure to the benefit of the Town.
8. The Town shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
9. The Town shall comply with all requirements of Title 15.1 Arizona Revised Statutes and other legal requirements regarding the issuance of bonds and certificates of the Town or its debt issuing authority.

10. The Town will maintain regular contact with rating agencies through meetings and visits on and off-site. The Town will secure ratings on all bonds issued if economically feasible.

Section 3-4-3 Fiscal Policy

The overall goal of the Town of Camp Verde's Fiscal Policy is to establish and maintain effective management of the Town's financial resources. The Town's formal policy statements and major objectives provide the foundation for achieving this goal.

Section 3-4-3.1 General Financial Goals

1. To maintain a financially viable Town that can maintain an adequate level of municipal services.
2. To maintain financial flexibility in order to be able to continually adapt to local and regional economic changes.
3. To maintain and enhance the sound fiscal condition of the Town.

Section 3-4-3.2 Operating Budget Policies

1. The Town will adopt a balanced budget by June 30 of each year.
2. An annual base operating budget will be developed by conservatively projecting revenues and expenditures for the current and forthcoming fiscal year.
3. Current revenues will be sufficient to support current operating expenditures and a budgeted positive operating position will be maintained.
4. Annual operating budgets will provide for adequate design, construction, maintenance and replacement of the Town's capital assets.
5. The purchase of new or replacement capital equipment with a value of $5,000 or more and with a minimum useful life of two years will require budget approval.
6. The Town will annually project its equipment replacement and maintenance needs for the next five years. A maintenance and replacement schedule will be developed and followed.
7. The Town will annually review the General Fund operating position to determine if funds are available to operate and maintain future capital facilities. If funding is not available for operations and maintenance costs, the Town will delay construction of the new facilities.

Section 3-4-3.3 Revenue Policies

1. The Town will try to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.
2. The Town will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental, and statistical analysis as appropriate. Revenue estimates adopted by the Town Council must be conservative.
3. User fees will be adjusted as necessary to recover the full cost of services provided, except when the Town Council determines that a subsidy from the General Fund is in the public interest.
4. One-time operating, capital and reserve revenues will be used for one-time expenditures only.
5. The Town will identify as necessary, developer fees and permit charges received from "non-recurring" services performed in the processing of new development and use those funds to meet peak workload requirements.

Section 3-4-3.4 Expenditure Policies

1. The Town will maintain a level of expenditures, which will provide for the public well-being and safety of the residents of the community.
2. The Town will decrease appropriated expenditures as necessary to keep total expenditures in line with projected revenues unless it materially affects the level of service provided to the public.

Section 3-4-3.5 Capital Improvement Budget Policies

1. The Town will make all capital improvements in accordance with an adopted and funded capital improvement program and will include an annual six-year plan for capital improvements (CIP design, development, implementation, and operating and maintenance costs).
2. The Town will use intergovernmental assistance to finance only those capital improvements that are consistent with the Capital Improvement Plan and Town priorities, and whose operating and maintenance costs have been included in the budget.
3. The Town will coordinate development of the capital improvement budget with the development of the operating budget. All costs for internal professional services needed to implement the CIP will be included in the operating budget for the year the CIP is to be implemented.
4. The Parks Fund and other special development impact funds may only be used to fund facilities included in the Town's master plans.

Section 3-4-3.6 Short-Term Debt Policies

1. The Town may use short-term debt to cover temporary or emergency cash flow shortages. All short-term borrowing will be subject to Council approval by ordinance or resolution.
2. The Town may issue interfund loans, rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations.

Section 3-4-3.7 Long-Term Debt Policies

1. The Town will confine long-term borrowing to capital improvements that cannot be funded from current revenues.
2. Where possible, the Town will use special assessment revenue or other self-supporting bonds instead of general obligation bonds.
3. The Town will establish and maintain a Debt Policy.

Section 3-4-3.8 Reserve Policies

1. The Town will maintain emergency reserves (rainy day fund) in the following amounts:
   - General Fund - Four (4) months of maintenance and operations expenditures.
   - HURF Fund - Three (3) months of expenditures.

   The primary purpose of these reserves is to protect the Town's essential service programs and funding requirements during periods of economic downturn (defined as a recession lasting two or more years), or other unanticipated or emergency expenditures that could not be reasonably foreseen during preparation of the budget.
2. The Town will establish an account to accumulate funds to be used for payment of accrued employee benefits for terminated employees. The level of this reserve will be maintained as a level at least equal to projected costs for employees who are eligible for retirement.
3. Self-insurance reserves will be maintained at a level, which, together with purchased insurance policies, adequately protects the Town. The Town will maintain a reserve of three times its self-insurance retention for those claims covered by the insurance pool (of which the Town is a member). The Town will perform an analysis of past claims not covered by the insurance pool and reserve an appropriate amount to pay for uncovered claims.
4. The Town will establish a Capital Equipment Replacement Reserve and a Facilities/Maintenance Capital Asset Reserve for the accumulation of funds for the replacement of worn and obsolete equipment, other than vehicles, and for costs associated with the maintenance of all Town facilities. These reserves will be maintained at a level at least equal to the projected five-year capital asset replacement and maintenance costs.
5. The Town will establish a Fleet Replacement Reserve for costs associated with the replacement of vehicles and other rolling stock as they become unserviceable, obsolete, or reach a predetermined service life. The reserve will be maintained at a level at least equal to the projected five-year fleet replacement costs.

Section 3-4-3.9 Investment Policies

1. The Finance Director will submit an Investment Policy to the Town Council bi-annually on odd numbered years for review and adoption.
2. The Finance Director will invest the Town's monies in accordance with applicable laws, adopted investment policies, and direct the investment of bond or note monies on deposit with a trustee or fiscal agent in accordance with the applicable indentures or issuance document.

Section 3-4-3.10 Accounting, Auditing & Financial Reporting Policies

1. The Town's accounting and financial reporting systems will be maintained in conformance with Generally Accepted Accounting Principles and standards of the Government Accounting Standards Board.
2. An annual audit will be performed by an independent public accounting firm with the subsequent issue of an official Comprehensive Annual Financial Report, including an audit opinion. The term for the external auditor will be no longer than three (3) years; the Town will then go to the RFP process for an independent public accounting firm; the firm currently serving the Town will not be eligible to participate in replying to the RFP.
3. A fixed asset system will be maintained to identify all Town assets, their condition, historical cost, replacement value and useful life.
4. Quarterly financial, Capital Improvement Program and Investment reports will be submitted to the Town Council as soon as practicable following the close of the quarter, and will be made available to the public.
5. Full and continuing disclosure will be provided in the general financial statements and bond representations.
6. Maintain a positive municipal credit rating.

Section 3-4-4 Investment Policy

Section 3-4-4.1 Purpose
The purpose of this policy is to create a guide for the investment of Town of Camp Verde (hereinafter referred to as "the Town") funds. The Town currently has no written guidelines advising how the Town should invest its funds, nor guidelines detailing the desired outcomes and priorities. The Town also desires to take advantage of resources not available to the Town through the Local Government Investment Pool.

Therefore, it is the investment policy of the Town and its designee, the Finance Director (hereinafter referred to as "the Finance Director"), to maintain the safety of principal, maintain liquidity to meet cash flow needs and provide competitive investment returns as identified below. The Finance Director will strive to invest with the judgment and care that prudent individuals would exercise in their own affairs.

Section 3-4-4.2 Governing Authority
The investment program of the Town shall be operated in conformance with Federal, State and other legal requirements, primarily outlined in A.R.S. §35–323.

Section 3-4-4.3 Approval of the Investment Policy
The investment policy shall be formally approved and adopted by the Town Council and reviewed on or about July 1 of every odd numbered year by the Town Council or their designee.

Section 3-4-4.4 Scope

- This policy is designed to apply to the investment needs of the Town.
- The Town will consolidate cash and reserve balances from all funds in order to maximize investment earnings and to increase efficiencies with regard to investment management pricing, safekeeping costs and administration costs, except for cash in certain restricted and/or special funds, which are exempted from this policy.
- Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- The Finance Director will follow A.R.S. §35–323 and other investment guidelines mandated by statute. Investments that need to restrict yield for purposes of the Internal Revenue Service's Arbitrage Bond Regulations (Treasury Regulation Section 1.148-1 *et seq.*) will be deposited into a separate account and invested in a manner that meets arbitrage guidelines permitted by the IRS.

Section 3-4-4.5 Investment Policy Objectives

The primary investment objectives of the Town in order of priority are:

1) Safety
2) Liquidity
3) Optimal yield
4) Collateralization

These objectives are defined below:

1) <u>Safety</u> - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to prudently mitigate credit risk and interest rate risk. It is understood by the Town that no investment is completely free of risk.

a. **<u>Credit Risk</u>**
The Town will seek to mitigate credit risk, which is defined as the risk of loss due to the failure of the security issuer or backer. Mitigating credit risk is to be accomplished by:
- Limiting investments in the portfolio to the asset classes designated as acceptable in A.R.S. §35-323;
- Diversifying the investment portfolio so that the impact of potential losses from any one individual issuer held in the portfolio will be limited. Specific diversification parameters will be noted in Section VIII. Portfolio Criteria;
- Utilizing external research and advice regarding the current global economic condition and its impact on the outlook for domestic corporate credit quality.

b. **<u>Interest Rate Risk</u>**
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:

- 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 in an adverse market environment prior to maturity;
- 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;
- Utilizing external research and advice regarding the current interest rate outlook and global economic condition to optimize portfolio duration strategy.

2) Liquidity - The investment portfolio shall remain sufficiently liquid to meet anticipated cash flow requirements. This is to be accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash flow needs (static liquidity). Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist of securities for which there exist active secondary markets (dynamic liquidity). Alternately, a portion of the portfolio may be placed in money market mutual funds or the Local Government Investment Pool, which offers same-day liquidity for short-term funds.

3) Optimal Yield - Return on investment is of lesser importance compared to the safety and liquidity objectives described above. The investment portfolio shall be designed to optimize the yield the Town obtains from the portfolio taking into account the criteria of the investment policy, the dynamic liquidity needs of the Town and the current interest rate outlook/economic condition.

4) Collateralization – Securities will be registered in the name of the Town of Camp Verde.

Section 3-4-4.6 Investment Management Authority
Authority to manage internally or to delegate the management of the investment program of the Town to an external manager is granted to the Finance Director. If authority to manage all or a part of the investment program of the Town is delegated to an external manager, the Finance Director is responsible for:

a. Periodic investment portfolio reporting;
b. Evaluating the performance of the externally managed portfolio;
c. Monitoring manager compliance with the investment policy;
d. Conveying the investment needs of the Town to the external manager;
e. Developing investment strategy with the external manager.

Section 3-4-4.7 Brokers/Dealers
When the Town is investing directly with Brokers/Dealers, 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 A.R.S. §44-3101, as amended. In addition, investment transactions shall be conducted only with those direct issuers who meet both credit and capital requirements established by the Finance Director. It shall be the responsibility of the broker-dealer to provide the following:

a. Audited, most recent annual financial statements within six months of the close of the fiscal year;
b. Unaudited, most recent quarterly financial statements;
c. Proof of National Association of Security Dealers certification;
d. Proof of Arizona registration (as needed);
e. A signed letter acknowledging that they have read and agree to abide by the investment policy.

Section 3-4-4.8 Portfolio Criteria

1. **Acceptable Asset Classes**
   As of 4/16/2007, A.R.S. §35-323A defines the acceptable asset classes available for the Town to invest in as follows:
   A. Certificates of deposit in eligible depositories.
   B. Certificates of deposit in one or more federally insured banks or savings and loan associations in accordance with the procedures prescribed in Section 35-323.01.
   C. 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.

D. Repurchase agreements with a maximum maturity of one hundred eighty days.
E. The pooled investment funds established by the state treasurer pursuant to § 35-326.
F. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
G. Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns or school districts.
H. 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.
I. 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:
   (i) 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.
   (ii) 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.
J. Commercial paper of prime quality that is rated "P1" by Moody's Investor 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.
K. 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.

All other investments are thereby prohibited from consideration for investment. Furthermore, the Town may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments listed above.

Section 3-4-4.9 Benchmark

The performance of an actively managed portfolio on behalf of the Town will be expected to at least match the performance of the Local Government Investment Pool during any one-year period.

Occasionally, based on the liquidity needs and the portfolio strategy of the Town it may be reasonable and desirable to measure portfolio performance against a total return benchmark. The Finance Director shall define such a benchmark after consultation with professionals in the field of financial management and the Town Council.

Section 3-4-4.10 Maturity Parameters

Funds Maximum Maturity:	3 Years
Maximum Maturity for Repurchase Agreements:	180 Days
Portfolio Duration Target:	To be defined by the Finance Director in consultation with the Town Council.
Portfolio Duration Range:	+ / – 20% of the Portfolio Duration Target

Section 3-4-4.11 Concentration and Diversification

At the time of purchase a maximum of 5% of the market value of the portfolio may be invested in debt issued by any single entity. Debt backed by the United States Treasury or GSE's are exempt from this concentration criterion.

Section 3-4-4.12 Minimum Acceptable Credit Quality
As indicated in the table below, all corporate portfolio holdings at the time of purchase must have a minimum rating (*) by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO's).

	(i) S & P	(ii) Moody's
Short Term Rating	Not lower than the Town of Camp Verde current G.O. Bond Rating or its commensurate short term rating * (see exhibit 1)	Not lower than the Town of Camp Verde current G.O. Bond Rating or its commensurate short term rating * (see exhibit 1)
Long Term Rating	One grade higher than the Town of Camp Verde current G.O. Bond Rating *	One grade higher than the Town of Camp Verde current G.O. Bond Rating *

*In no case shall the rating be lower than that required by A.R.S. §35-323, as amended.

Section 3-4-4.13 Safekeeping and Custody

B. **Delivery vs. Payment** - All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

C. **Safekeeping** - Securities will be held by a custodian selected by the Town and evidenced by custodial reports. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

Section 3-4-4.14 Reporting
The Finance Director shall produce for the governing body of the Town or their designee an investment report at least quarterly. The purpose of the report is to enable the Town to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should include:

a. A list of individual securities held at the end of the reporting period;
b. The realized and unrealized gains or losses in the portfolio;
c. The duration of the portfolio and of each security held in the portfolio;
d. The maturity date of each security held in the portfolio;
e. The book value and market value of each security in the portfolio;
f. The percentage of the total portfolio market value that each security represents;
g. The yield to maturity of the portfolio and of each security held in the portfolio;
h. The periodic interest earnings of each security held in the portfolio;
i. The credit quality of each security held in the portfolio;
j. A periodic summary of portfolio transactions, including fees incurred for external management and custody services.

Section 3-4-4.15 Custodian Reconciliation – The report of investment holdings shall be reconciled within 30 days of the close of each month to the Finance Director's custodian bank. Discrepancies shall be reported to the Finance Director.

Section 3-4-4.16 Ethics and Conflicts of Interest
Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose, within ten (10) days, any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Town.

Section 3-4-4.17 Policy Considerations
Exemption – Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy. Any deviation from the preceding policy shall require the prior specific written authority of the Town Council.

Section 3-4-4.18 Investment Training

Investment officials shall have a finance, accounting or related degree and knowledge of treasury functions. Investment training must take place not less than once in a two-year period and receive no less than ten hours of instruction relating to investment responsibilities from an independent source such as Government Finance Officers Association, Municipal Treasurers Association, American Institute of Certified Public Accountants, Government Finance Officers Association-Arizona, Arizona Society of Public Accounting or other professional organizations.

The Chief Financial Officer and all investment officials of the Town shall attend at least one training session relating to their cash management and investment responsibilities within 12 months of assuming these duties for the Town. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with state investment statutes.

A report of the training(s) attended shall be submitted to Council at the time of the bi-annual review of the Investment Policy subject to Section 3-4-4.3.