

**RESOLUTION NO. 1031-0625**

A RESOLUTION OF THE COUNCIL OF THE CITY OF AVONDALE, ARIZONA, AMENDING THE CITY OF AVONDALE COMPREHENSIVE FINANCIAL POLICIES.

**WHEREAS**, on June 3, 2024, by Resolution No. 1053-0624, the Council of the City of Avondale (the “City Council”) adopted the City of Avondale Comprehensive Financial Policies (the “Financial Policies”); and

**WHEREAS**, City Council desires to amend the Financial Policies to update the fund balance and financial policies contained therein to provide more comprehensive direction in financial matters and policies; and

**WHEREAS**, the National Government Finance Officers Association (GFOA) has recommended that municipalities formally adopt financial policies as a central component to strategic, long-term financial management.

**NOW, THEREFORE, BE IT RESOLVED** BY THE COUNCIL OF THE CITY OF AVONDALE as follows:

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

SECTION 2. The June 2, 2025, Amended City of Avondale Comprehensive Financial Policies (the “Amended Financial Policies”) are hereby adopted in the form attached thereto as Exhibit A and incorporated herein by reference.

SECTION 3. If any section, subsection, sentence, clause, phrase or portion of this Resolution or any part of the Amended Financial Policies adopted herein is for any reason held to be invalid or unconditional by the decision of any court or competent jurisdiction, such decision shall not affect the validity of the remaining portions thereof.

SECTION 4. The Mayor, the City Manager, the City Clerk and the City Attorney are hereby authorized and directed to execute all documents and take all steps necessary to carry out the purpose and intent of this Resolution.

[SIGNATURES ON FOLLOWING PAGE]

**PASSED AND ADOPTED** by the Council of the City of Avondale, Arizona,  
June 2, 2025.

*Mike Pineda*

[Mike Pineda \(Jun 5, 2025 09:04 PDT\)](#)

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Mike Pineda, Mayor

ATTEST:

*Marcella Sarmiento*

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Marcella Sarmiento, City Clerk

APPROVED AS TO FORM:

*Nicholle Harris*

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Nicholle Harris, City Attorney

EXHIBIT A  
TO  
RESOLUTION NO. 1031-0625

[City of Avondale Comprehensive Financial Policies, Amended June 2, 2025]

See following pages.

# City of Avondale Comprehensive Financial Policies

## Amended, June 2, 2025

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## Introduction

Comprehensive financial, budgetary and accounting principles help create a resilient structure for the City's strong, long-term financial planning. Financial policies contribute to increased stakeholder confidence and trust and provide clear direction to City staff concerning the diligence and stewardship with which public monies are to be managed. Policies that are formally adopted show our residents, visitors, businesses, credit rating agencies, and bond investors the City's commitment to financial resiliency and thoughtful management.

Avondale incorporates the following short and long-term financial policies and guidelines for managing revenues, expenditures, fund balance, capital planning, and debt management in its annual budget planning and in ongoing operations throughout each year. In addition, proper accounting practices complement budget development and internal controls to enable the implementation of the City's long-term objectives.

Importantly, the responsibility for applying these policies does not rest solely with Finance and Budget Department staff, but involves the entire City organization of staff, management, and elected officials to ensure Avondale adheres to, and collaborates in, the application of these policies.

To be effective over the long term, these policies must be re-evaluated and updated on a regular basis to ensure the goals and objectives are applicable and achievable.

## Fiscal Planning

Fiscal planning is a key element in ensuring that positive financial outcomes can be achieved and will be sustained over time. The City expresses its planning objectives through the adoption and monitoring of the annual budget. These policies will aid in developing the annual budget and related controls, but more importantly, should provide a longer-term perspective to the City's financial position and planning.

The City Council conducts budget planning in public meetings to communicate policy direction for the development of the annual budget and other fiscal priorities and goals. Staff incorporates these policy directions into the annual budget development process.

Staff identifies the City's revenue sources and provides their best estimates of the anticipated level of funding during the forecast period. Staff also prepares realistic estimates of the likely costs of current and proposed City programs, costs of City staffing and benefits, and related operational costs. The principles outlined within this policy help to ensure these goals can be operationalized and sustained from year to year.

Staff evaluate revenue sources to determine if they should be considered on-going or one-time in nature. Revenues that are determined to be on-going may be used to fund the City's on-going operations and one-time needs. However, one-time revenues shall not be budgeted to fund on-going expenses or debt.

Management prepares recommendations to create a balanced budget and sets priorities for the planning period to accomplish the Council's policy direction.

## Fund Balance and Reserves

Maintaining reserves is a prudent financial practice, and fund balance is an important indicator of the City's financial health and stability. Fund balances and reserves are maintained to allow the City to continue providing services to the community in case of unexpected emergencies, unfunded mandates from other governments, and/or economic downturns.

The City classifies and reports fund balances in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The Council has the authority to set aside funds for a specific purpose. Any funds set aside as committed fund balance requires a simple majority vote of the Council prior to the conclusion of the annual audit for the applicable fiscal year.

The Finance and Budget Department Director has the authority to assign funds that are not otherwise assigned by Council action for specific purposes. Any funds set aside as assigned fund balance in this manner must be documented in writing to the City Manager. Such assignments will be identified and incorporated in the City's annual budget planning process.

The City utilizes a two-tier stabilization arrangement as committed fund balance in the General Fund of no less than 35 percent (35%) of adopted budgeted General Fund expenditures from the prior fiscal year, excluding interfund transfers, expenditures on capital projects, and contingency appropriation, to provide a comfortable margin of safety to address potential natural disasters, unexpected economic events, revenue shortfalls, or other budget contingencies.

The first-tier commitment consists of a 25% emergency reserve that may only be used for the following reasons:

- Mitigate damage and expenditures caused by a declared disaster or declared state of emergency for which no reasonable budget adjustments are available to continue or restore essential services.
- Address emergency events that jeopardize the public safety.
- Provide and maintain essential services to the public during natural disasters or emergency events.

The second-tier commitment consists of a 10% Rainy-Day Reserve that may only be used under the following circumstances:

- The City experiences sudden and/or unexpected declines in revenues that are greater

than 10% of General Fund operating revenues from the prior year.

- The City experiences sudden and/or unexpected declines in state-shared revenues that are greater than 10% of General Fund operating expenditures from the prior year.
- Provide and maintain essential services to the public during natural disasters or emergency events.

Once the City Manager, or their designee, has determined that it is necessary to spend down stabilization reserves, the City Manager shall provide written communication to the Council explaining the nature of the event/occurrence necessitating their use for Council approval. If the reserves are reduced below the minimum required levels, the City staff shall develop a plan for Council approval to restore the reserves to the appropriate balances.

The City shall replenish the emergency and rainy-day reserves within two (2) fiscal years and five (5) fiscal years following the fiscal year of the event, respectively. If the depletion occurs during an ongoing economic downturn, the City shall restore the funds within two (2) years of revenue meeting or exceeding pre-economic downturn amounts, as applicable. The progress of replenishment shall be reported in the City’s annual budget.

The City has established two dedicated one-half cent sales tax funds for designated purposes approved by Avondale voters. These funds are recorded and expended separately in accordance with their enabling ordinances. The City ensures the funds are sustainable and can address the City’s funding requirements for the approved uses over the City’s forecasting period by maintaining a forecasted budgeted fund balance of no less than 16 percent (16%) of budgeted ongoing operating expenditures to provide a comfortable margin of safety to address potential natural disasters, unexpected economic events, revenue shortfalls, or other budget contingencies.

- A. The City maintains a separate one half-cent sales tax fund to fund capital improvement projects related to street maintenance, sidewalk improvements, constructing and maintaining residential streets, constructing traffic signals and installing streetlights, construction of water infrastructure and wastewater treatment infrastructure to increase capacity, and transportation projects and services.
- B. The City maintains a separate one half-cent sales tax fund to fund needs of its public safety operations above the fiscal year 2003 amount, including: sworn personnel, command staff, support staff, and support costs; code enforcement personnel and support costs; and personnel and/or services to support the City Court.

The following table details the historical reserve fund balance policies.

Fund	FY2025	FY2024	FY2022	FY2021
	<b>General Fund</b>			
General Fund Reserve Total	35% budgeted expenditures of prior fiscal year	35% budgeted expenditures of prior fiscal year	35% budgeted expenditures of prior fiscal year	35% budgeted expenditures of prior fiscal year

Tier 1: Emergency Reserve	25%	25%	25%	25%
Tier 2: Rainy Day Reserve	10%	10%	10%	10%
<b>Enterprise Funds</b>				
Water and Sewer Operating Reserve Funds	6 months of prior year budget expenses, including debt service but excluding depreciation, capital, and contingency	6 months of prior year budget expenses, including debt service but excluding depreciation, capital, and contingency	6 months operating expenditures including debt service but excluding depreciation	6 months operating expenditures including debt service but excluding depreciation
Solid Waste Reserve Funds	4 months of prior year budget expenses, including debt service but excluding depreciation, capital, and contingency	4 months of prior year budget expenses, including debt service but excluding depreciation, capital, and contingency	4 months operating expenditures + annual debt service	4 months operating expenditures + annual debt service
<b>Other Funds</b>				
<b>Dedicated Sales Tax</b>	16% of budgeted ongoing operating expenditures	None	None	None
Public Safety Sales Tax	16% of budgeted ongoing operating expenditures	None	None	None

## Revenues, Collections and Fees

Management will strive to develop a diverse and sustainable revenue base to support City operations and future objectives.

The combined primary and secondary City property tax rates will be set at an amount that will not be more than \$2.00 per \$100 of assessed valuation. Tax rates set by Community Facility Districts (CFDs) or Maintenance Improvement Districts (MIDs) within the City are excluded from the rate ceiling.

When appropriate, and in the determination by the Finance and Budget Department Director, user fees will be considered for adoption by the City Council to recover a portion of the costs of delivering services to customers who directly benefit. Services provided for the community's general welfare may be provided without user service fees.

Rates and fees that are not set within the Avondale Municipal Code or state statute will be reviewed annually and may be adopted or amended by Council in accordance with Arizona Revised Statutes (A.R.S.) §9-499.15.

Staff will contract with licensed professionals to assess the appropriate level of development impact fees to provide a funding source for necessary public infrastructure that will benefit future City growth. These fees will be adopted, managed, and accounted for in compliance with Arizona Revised Statutes (A.R.S.) §9-463.05. These fees will be updated as needed or as required by state statute.

The City may accept payments for fees and other charges by credit or debit card but shall not accept credit or debit card payments for less than one dollar (\$1.00) or greater than fifteen

thousand dollars (15,000.00).

## Expenditure and Budget Control

Management must ensure compliance with the legally adopted budget and establish policies and procedures that provide for appropriate controls in the application and monitoring of the City's fiscal operations. Purchases and expenditures must comply with legal requirements and policies and procedures set forth by the state and the City.

A balanced operating and capital budget will be presented annually for Council review and adoption no later than July 1<sup>st</sup> of the fiscal year and in accordance with the requirements of A.R.S. §42-17105. These budgets should reflect the priorities of Council and reflect the City's current needs, strategic goals, and priorities.

The City will budget and track expenses and revenues by fund. Each fund is considered a separate fiscal entity accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues and expenditures/expenses. Funds are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance to special regulations, restrictions, or limitations. Staff may add additional administrative funds for tracking specific expenses and revenues.

The budget shall be considered balanced when all sources of funds (revenue, transfers in, and fund balances) are greater than or equal to all uses of funds (expenditures, transfers out, and contingencies) for each fund.

As part of the budget, staff will develop forecasts of the City's major funds over a five-year period.

Requests during the budget process for new or expanded on-going services shall be made through supplemental requests. Appropriations from supplemental requests approved during the budget process will be used only for the purposes authorized by the approved supplemental request. The Finance and Budget Department will monitor the utilization of these amounts to ensure timely expenditure. If the funding is not utilized for the stated purpose in a reasonable timeframe, funds may be reverted with the authorization of the City Manager. If the funds are no longer needed for the purpose, the City Manager may reallocate the funds according to the budget transfer guidelines. Funds not identified for a specific use may be used for their highest and best use as determined by the department director and the City Manager and according to any legal restrictions on the funds being used.

A system will be used to manage position control that coordinates human resource information with budgeted position information. Seasonal, temporary, or positions with irregular hours may be controlled by the dollar amount budgeted for this purpose.

The City Manager and Human Resources Director may authorize Public Safety, Police, and Fire and Medical to hire critical public safety employees without budgeted positions on a temporary

basis as those employees go through training. The requesting department will identify the funding source for these training positions prior to authorization from the City Manager and Human Resources Department.

To ensure continuity of operations, the City Manager and Human Resources Director may authorize departments to temporarily exceed budgeted staffing levels to fill critical positions when the current incumbent in a critical position has formally announced their retirement. This temporary overlap is intended to provide adequate time for training and knowledge transfer

The City may budget for a reasonable amount of vacancy savings by fund in the non-departmental budget. The amount of budgeted vacancy savings shall consider prior year amounts, the economy, and any new recruiting or retention efforts.

Mid-year budget requests that require commitment of on-going resources will be kept to a minimum to minimize the impact on future budgets. If unexpected resources are secured after budget adoption, departments may not expend any of the funds without appropriation.

All departments are responsible for ensuring that expenditures do not exceed their approved budget. Department directors are obligated to communicate potential over-expenditures of their amended budgets to the Finance and Budget Department as soon as they become known.

The budget is adopted by the City Council by department and by fund. The budget will be further allocated by management to divisions and expenditure categories. Budget amendments may be executed throughout the year when the adopted purpose varies from operational needs identified during the fiscal year pursuant to the following guidelines. Amendments must be fully executed before the authorization or expenditure of funds.

#### Operating Budget Transfer Guidelines:

- Use of contingency fund appropriation requires City Council approval.
- Transfers of appropriation between funds require City Council approval. Administrative funds shall be treated as belonging to their parent funds for the purpose of this provision.
- Transfers of appropriation between departments require City Council approval.
- Transfers needed to appropriate formally accepted grants, or private donations may be approved by Finance and Budget.
- Transfers of appropriation to / from personal services (salaries, wages, and benefits) line items within the same department and fund require City Manager approval and must be one-time in nature so as not to impact the department's authorized FTE counts. Savings in personal services will not be used to offset deficits in department operating budgets without written authorization from the City Manager.
- Finance and Budget staff may transfer realized vacancy savings from department

budgets to the non-departmental budget to satisfy the budgeted vacancy savings. Finance and Budget staff may transfer realized vacancy savings from the non-departmental budget to department budgets to cover budget overages caused by vacation payouts, separation payouts, and other payouts.

- Department directors are authorized for all other transfer types between divisions and category of expenditures within the same fund.

Continuation of one-time appropriations (carryover) into the next fiscal year may be included in the adopted annual budget. Departments will identify these anticipated amounts as part of the annual budget process. Finance and Budget Department staff will evaluate and recommend requests for consideration as part of the budget adoption process. Appropriations from carryover approved during the budget process will be used only for the purposes authorized by the approved carryover. Finance and Budget Department staff may adjust carryover amounts after the budget is adopted if items with carryover appropriation were received or completed in the prior year.

The City 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 City's procurement code, purchasing policies, guidelines, procedures, and applicable state and federal laws. The City will endeavor to obtain supplies, equipment, and services that provide the best value through cooperative purchase agreements and competitive selections.

A system of appropriate internal controls and procedures using best practices shall be maintained for the City's payment processes to ensure vendor and contractor invoices are paid in a timely manner and in accordance with A.R.S. §34-221.

The State of Arizona sets a limit on the expenditures of local jurisdictions. The City will comply with these expenditure limitations and will submit an audited expenditure limitation report as defined by the Uniform Expenditure Reporting System (A.R.S. §41-1279.07) along with audited financial statements to the State Auditor General within the prescribed timelines.

The City Council will pursue an alternative expenditure limitation or an adjustment to the State expenditure limitation as provided by Article IX, Section 20 of the State Constitution if the projected expenditures within two years are anticipated to exceed the expenditure limitation.

City staff will develop policies and procedures for the administration of grant awards. The City will evaluate potential grants to ensure that they further the goals and objectives of the City without unduly obligating or leveraging current or future City funds. Grant opportunities will be reviewed and approved by the Finance & Budget Department Director or their designee prior to the creation of the grant application.

All grant awards require the approval of City Manager or their designee for acceptance before

appropriation of funds. Finance and Budget staff may transfer appropriations as necessary for accepted grants or private donations. Grant funding may not be obligated in advance of acceptance by the City Manager or their designee. The stability of the funding source along with potential funding alternatives, should the grant or donation diminish or cease, shall be considered prior to funding personnel or other ongoing expenses in-whole or in-part from grants or donations.

## Capital Planning and Asset Management

The City will manage and plan for capital assets and infrastructure improvements. A capital project is defined as a one-time, long-term project to build upon, add to, or improve a capital asset. Capital projects should generally cost more than \$100,000 and the infrastructure improvement resulting from a completed capital project should have a lifespan of more than three years. Replacement of existing assets may also be tracked as a capital project to ensure proper long-term planning. Long-term capital planning documents such as infrastructure master plans should also be tracked as a capital project.

Management will plan and manage the City's capital infrastructure and assets in a fiscally sound and sustainable manner to ensure they support City operations, goals for quality of life, and future growth.

A balanced Capital Improvement Plan (CIP), which supports City operations and goals for quality of life and future growth, shall be developed for a five-year period to allow for appropriate planning. The CIP shall be considered balanced when all sources of funds (revenue, transfers in, and fund balances) are greater than or equal to all uses of funds (expenditures, transfers out, and contingencies) by year for each fund in the capital program. The CIP shall cover a planning period of five years, but only the first year of the five-year CIP will be adopted by City Council as part of the annual budget.

Capital projects will only be approved with funding from designated sources that are known – or considered reasonably likely during the project's plan – and meet the project's estimated development costs and costs to support.

Capital project budgets often span multiple fiscal years and appropriation often needs to carryover from one fiscal year to the next to ensure adequate appropriation for the project. Carryover of a project budget shall not increase or decrease the total approved budget for a project. The budget of an approved capital project shall be managed at both the total project budget level (regardless of fiscal year) and also the approved fiscal year appropriation. Finance and Budget Department staff may adjust carryover appropriation for a capital project if the adjustment does not increase or decrease the total project budget.

Changes to capital projects within the approved CIP in terms of material individual capital project changes in scope and, proposed transfers of funds between approved capital projects greater than \$50,000 require City Council review and authorization. Mid-year capital project

additions to the approved CIP will be kept to a minimum to minimize the impact on future budgets and require City Council review and authorization. The council report must indicate the reason for the mid-year change, the impact on the overall CIP including future capital projects, and why the change needs to occur mid-year and cannot wait for the annual budget process.

Transfers of available appropriation in the CIP of under \$50,000 within capital projects of the same department and fund may be approved by the City Manager or designee. Such amendments will be communicated to the Council as needed.

The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase long term costs. As such, the City will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the CIP and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure assets.

### Capital Assets

Capital assets are real, intangible, or personal property that have a value equal to or greater than the capitalization threshold and have an estimated useful life of greater than one year. A capital asset shall be reported and with certain exceptions, using the straight-line method over the estimated useful life based on the depreciation schedule.

Capital assets shall be recorded at their acquisition, construction or historical cost and include all costs associated with placing the asset in service including but not limited to insurance during transit, freight, and installation costs. In the absence of historical cost information, an estimated historical cost may be used. All capital assets shall be assigned an asset number and entered into the asset management system by the Finance and Budget Department for tracking, reporting, and depreciation purposes.

The City shall capitalize assets whose individual costs are \$10,000 or more or groups of assets with an aggregate value of \$1.0 million or more, which is 1% of the City's total capital asset value net of accumulated depreciation. For example, replacing 500 computers valued at \$2,000 would be capitalized because the aggregate value is more than the threshold.

Construction in progress is the economic construction activity status of buildings, infrastructure, and improvements that are substantially incomplete. Construction in progress assets shall be capitalized but not depreciated until the earliest occurrence of substantial completion or the asset is placed in service. Payroll costs are not capitalized for projects completed by City staff.

GASB 87 requires that property and equipment leases that convey control of the right to use

another entity's financial asset in an exchange or exchange-like transaction must be reported as a capital lease/financing lease. Where the City is the lessee, a lease liability and intangible asset shall be recognized. Where the City is the lessor, a lease receivable and deferred inflow of resources shall be recognized. The City shall recognize GASB 87 lease receivable or lease liability with an initial, individual value of \$100,000 or more.

GASB 96 requires the City to recognize a right-to-use subscription as an intangible asset and a corresponding subscription as liability. The City should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. This Statement provides an exception for short-term subscription-based IT arrangements (SBITA). Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. The City shall recognize SBITA intangible asset with an initial, individual value of \$100,000 or more.

The City will record the acquisition and disposition of capital assets in a timely manner and in accordance with accepted accounting practices and will maintain appropriate control over their location and condition. Finance and Budget Department staff will establish a system of controls that ensures departments maintain stewardship and control of their non-capital assets.

To ensure the safeguarding of capital assets, a physical inventory of capital assets shall be performed annually.

### Debt Management

The City will prudently utilize debt to fund long-term objectives without over-committing the City's current or future resources. The proceeds from General Obligation, Excise, and Utility Revenue bonds may be used as a funding source for the capital improvement plan. The City shall not use derivatives for debt management.

Long-term debt shall not be issued to finance ongoing operations. Short-term borrowing or lease purchase contracts should only be considered for financing major operating capital equipment when it is determined to be in the City's best financial interest as determined by the Finance and Budget Department Director or their designee.

The City's capacity to issue new General Obligation (G.O.) debt, within the limits established in Article 9, Section 8 of the Arizona Constitution, will be projected annually with the budget process. General obligation debt will not be issued if the secondary property tax rate when combined with the primary rate is projected to exceed \$2.00 per hundred dollars of assessed valuation.

Bonds which pledge excise taxes will be issued only when actual annual excise tax collections are at least three (3) times the maximum annual debt service. Bonds which pledge water, sewer,

or solid waste revenue will be issued only when minimum fund reserves are projected to be maintained. The water, sewer, and solid waste funds will maintain operating debt coverage ratios that are at least 1.5 times the fund's maximum annual debt service requirement over a prospective five-year period. The operating debt coverage ratio represents the utilities' revenues less operating and maintenance expense (without debt service) compared to annual debt service obligations.

Debt shall be structured to provide a stable property tax rate and must abide by Arizona Revised Statute Title 35, Chapter 3 and the authorizing documents.

The City shall contract with a municipal advisor professional registered with the Municipal Securities Rulemaking Board and bond counsel to assist with the issuance of debt. In consultation with the financial advisor, the Finance and Budget Department Director or their designee will determine the method of sale most advantageous to the City for the specific debt issuance, including competitive, negotiated, private placement, or bank loan. The financial advisor shall provide bond pricing services or market indices to evaluate final bond pricing. The City will endeavor to obtain the best bond pricing through the use of credit rating agencies or the acquisition of bond insurance. The financial advisor shall assist with obtaining the best pricing, including determining the number of ratings, the selection of rating services, the selection of bond insurance providers, and the selection of underwriters.

The Finance and Budget Department Director shall have written documentation related to the investment of bond proceeds, continuing disclosure procedures, tax law compliance monitoring, arbitrage rebate monitoring, federal and state law compliance practices, and ongoing investor relations efforts.

Debt service shall be included in all budgets and long-term financial plans to ensure adequate resources are available to make payments on time. The City shall utilize a bond paying agent to distribute interest and principal payments to bondholders.

Unfunded pension liabilities, or pension debt, are often a significant portion of a city's debt. Consequently, the City shall maintain and comply with a written pension funding policy for its Public Safety Personnel Retirement System plan that has been approved by the City Council. The City will ensure that the plan has sufficient assets to meet actuarial requirements. In funding the plan, the City will balance member pension benefits and taxpayer funds in an equitable manner.

### Accounting, Auditing, and Reporting

The City will conform to general accepted accounting principles (GAAP) adopted by the Governmental Accounting Standards Board (GASB) and will remain abreast of current policies and changes in approaches. Staff will apply best practices and authoritative standards for local governments to ensure ease of understanding and financial transparency.

The City will prepare and publish an Annual Comprehensive Financial Report to provide accurate

and meaningful information on the City's financial condition as prescribed by the Government Finance Officers Association (GFOA).

Management will ensure appropriate internal controls are in place across the City to ensure funds are safeguarded and utilized according to stated objectives and governing policies. Finance and Budget Department staff may develop guidance or policies to assist departments with proper internal control protocols and procedures.

All City bank accounts shall be reconciled and reviewed on a monthly basis and no later than 45 days after the end of the calendar month.

Bond funds will be managed to facilitate arbitrage and accounting requirements.

### Enterprise and Internal Service Funds

The City's enterprise funds are established to provide services to the community and are to be self-supporting from the revenues generated by their user charges and fees. These funds will pay an appropriate amount of overhead costs for services received from central service departments. Revenues from ratepayers will not be used to subsidize the operations of non-enterprise functions.

The water and sewer operating funds will maintain an operating reserve as assigned fund balance equal to six (6) months of the previous year's adopted budgeted expenditures that includes debt service payments but excludes depreciation expense, capital expenditures, and contingency appropriation. The solid waste fund and any additional enterprise funds the City may add in the future will maintain an operating reserve as assigned fund balance equal to four (4) months of the previous year's adopted budgeted expenditures plus the amount required to meet the annual debt service requirements, but excludes depreciation expense, capital expenditures, and contingency appropriation.

Enterprise funds may have separate administrative funds for the separate tracking of capital development and equipment replacement. The water, sewer, and solid waste development and equipment replacement funds are not considered part of the operating funds for the reserve calculations, but the funds may reserve separate amounts for capital replacements in accordance with any bond covenant requirements.

User rates and fees for enterprise operations will be reviewed and recommendations on user rates and fees will be presented to City Council for adoption periodically to ensure they recover the costs of operations, capital investments, debt obligations, and required reserve requirements to ensure stability and financial sustainability. The City will endeavor to set charges that are competitive, as affordable as possible, and recognize customer value. Enterprise funds will pay appropriate internal service costs for central City functions using the same allocation methodology as other City funds. These will be separate from any assessments to the City's water and sewer utilities for payments-in-lieu-of-property tax (PILOT) and franchise fee-in-lieu interfund transfers.

Internal service funds may be established for activities that provide goods and services to other areas of the City on a cost-reimbursement basis. Internal service funds will also be used in areas the City finds it advantageous to be self-insured.

Internal service funds should operate on a cost-recovery basis. User fees will be established and updated annually to ensure the full cost of providing services, including the cost of capital assets (depreciation, related debt services or estimated replacement cost) will be recovered. Surplus or deficit fund balances in these funds will be monitored to ensure they are compatible with the cost- reimbursement character of the fund type.

### Accounting Principles and Budget

Annually, the City of Avondale Finance and Budget Department publishes a financial document related to the City budget called an Annual Comprehensive Financial Report (ACFR). It provides a fair representation of the status of the City's financial position, changes in financial position, and changes in cash flow, as applicable, of the City's governmental funds, proprietary funds and fiduciary funds in accordance with U.S. "generally accepted accounting principles" (GAAP) adopted by the Governmental Accounting Standards Board (GASB). The GASB is the recognized standard-setting body for establishing governmental accounting and reporting principles.

In accordance with GASB, the governmental fund types (General, Special Revenue, Debt Service, and Capital Project Funds) are prepared on a modified accrual basis and focus on near- term liquidity. In these funds, expenditures are recorded when the related fund liability is incurred and revenues are recognized only when they are measurable and available. The proprietary fund types (Internal Service and Enterprise Funds) are prepared on a full accrual basis of accounting and have an economic resources measurement focus. In these funds, expenses are recognized when they are incurred and revenues are recognized when they are earned by the City (e.g., water user fees are recognized as revenue when service is provided). The ACFR includes a budgetary comparison for all major governmental funds.

The City of Avondale uses a fund-based budget, meaning that the accounts of the City are organized on the basis of funds. Each fund is considered a separate entity accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues and expenditures/expenses. Funds are segregated for the purpose of carrying specific activities or attaining certain objectives in accordance to special regulations, restrictions, or limitations. For all funds, the budget, or appropriations, lapse on June 30th. Any unspent appropriations required in the subsequent fiscal year are estimated and re-appropriated as carryover budgets in each respective fund.

In most cases, the City conforms to GASB principles when preparing its budget and reporting fund balances for budgeting purposes. Exceptions are made where it would be impractical or inappropriate to budget using accounting requirements. Some of the more significant

differences follow:

- Compensated absence liabilities (e.g., sick and vacation leave) are recorded as expenses within the Enterprise Funds when earned by employees (GAAP) as opposed to being expensed when paid (Budget).
- Claims incurred but not reported (IBNR) expense are recorded for GAAP basis but excluded on a budget basis.
- Capital outlays within the Enterprise Funds are recorded as assets on a GAAP basis and expenses on a budget basis.
- Principal payments on debt obligations of the Enterprise funds are recorded as a reduction of liability on a GAAP basis and expensed on a budget basis.
- Depreciation expense is recorded on a GAAP basis only.
- Changes in the fair value of investments are treated as adjustments to revenue on a GAAP basis only.
- Leases receivable is recorded on a GAAP basis only.
- Cash from interfund loans are reported as fund balance for budgeting purposes but the associated asset and liability are not reported for budgeting purposes.

### Investment Policy

The City receives significant revenue over the course of a year, and it is important that cash balances are prudently invested so that they not only provide an adequate return to the City, but invested monies are returned intact without any loss in principal balance. This investment policy is established to ensure the safety of City monies while at the same time providing the required liquidity to operate City programs.

This policy is designed to apply to the investment program of the City.

- The City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies regarding investment management pricing, safekeeping costs and administration costs. Cash in certain restricted and/or trust funds with investment restrictions may be kept separate.
- Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- The City operates under Arizona Revised Statute (A.R.S.) Title 35, Chapter 2, Article 2.1 entitled Money Management, 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.) may be deposited into a separate account and invested in a manner that meets arbitrage guidelines permitted by the IRS.

The primary objectives, in order of priority, of the City's investment activities are:

1. **Safety** – Safety of principal is the foremost objective of the investment program. The City will seek to ensure preservation of principal in the overall portfolio. The objective will be to prudently mitigate credit risk and interest rate risk. It is understood by the

City that no investment is completely free of risk.

2. **Liquidity** – The investment pools and funds will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is to be accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash flow needs. The portfolio should consist of securities for which there exist active secondary markets.
3. **Return on Investment** – The investment pools and funds shall be managed with the objective of attaining a competitive rate of return given the constraints of the safety and liquidity objectives. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The Standards of Care for the City are:

- Prudence – The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.
- Ethics and Conflict of Interest – Officers and employees of the City involved in the investment process shall adhere to the conflict-of-interest laws as set forth in A.R.S. §38-501 through 38-511. They shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

The City Manager, Assistant City Manager, and Finance and Budget Director may delegate the management of the investment program of the City to an external SEC-registered investment advisor(s). If authority to manage all or a part of the investment program of the City is delegated to an external advisor(s):

- The advisor(s) shall comply with this Policy and other written instructions provided by the Finance and Budget Director.
- The Finance and Budget Director will be responsible for:
  1. Periodic investment portfolio reporting;
  2. Evaluating the performance of the externally managed portfolio;
  3. Monitoring manager compliance with the investment policy;
  4. Conveying the investment needs of the City to the external manager/Investment Advisor(s);
  5. Developing investment strategy with the external manager and/or Investment Advisor(s).

A list will be maintained of financial institutions and depositories authorized to provide

investment services.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties).
- Proof of state registration.
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties).
- Certification of having read and understood and agreeing to comply with the City's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Finance and Budget Department.

If the City chooses to retain an investment advisor, then their approved Broker/Dealer list may be used in lieu of the requirements listed above.

The following standards related to Safekeeping and Custody shall be followed:

- All security transactions entered into by the City shall be conducted on a delivery versus payment basis.
- Securities shall be held by a custodian designated by the City and evidenced by custodial reports.
- Securities will be held by an independent third-party custodian selected by the entity as with all securities held in the City's name.
- 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).

The City shall establish written internal controls to regulate the activities of investment personnel, which shall include:

- Control of Collusion: Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- Segregation of duties: By separating the person who authorizes or performs the transaction, a good separation of duties is achieved.
- Custodial Safekeeping: Securities purchased from any bank or dealer, including appropriate collateral, shall be placed into an independent third-party institution for custodial safekeeping.
- Avoidance of physical delivery securities: Book entry securities are much easier to transfer and account for since actual delivery is never taken. Physical delivery securities

must be properly safeguarded as are any valuable documents. The potential of fraud and loss increases with physical delivery securities. Bearer-form securities are much easier to convert to personal use than securities that are registered in the name of the government.

- Clear delegation of authority to subordinate staff members: Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.
- Written Confirmation of all transactions (transfer, fax, internet) for investments and wire transfers: Due to potential for errors and improprieties arising from telephone/electronic transactions, these shall be documented in writing and approved by the appropriate person.
- Development of an electronic funds transfer agreement with banks: This agreement should outline the various controls and security provisions for making and receiving electronic funds transfers.
- Authorization representing the government shall be in compliance with the policy for all transfers.
- Financial institutions will have written instructions regarding government authorizations for wire transfers, restrictions on accounts where funds can be wired, and other procedures that will mitigate unauthorized movement of funds (e.g., call-back to independent person, written confirmation, etc.)
- Insurance may be secured at appropriate levels to bond employees charged with investment and cash handling responsibilities.

Consistent with the City's investment policy objectives and A.R.S. §35-323A, the following investments will be permitted by this policy:

1. Certificates of deposit in eligible depositories-50% sector limit, must be insured or fully collateralized.
2. Negotiable or brokered certificates of deposit issued by a nationally or state- chartered bank or savings and loan association; that are rated "A" (long-term) or A-1 (short-term) or the equivalent or better by a NRSRO-50% sector limit, 5% issuer limit.
3. Commercial paper, of prime quality that is rated within the top two ratings by a nationally recognized rating agency. All commercial paper must be issued by corporations organized and doing business in the United States-50% sector limit, 5% issuer limit.
4. 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. Deposits in excess of the insured amount are secured by collateral as outlined in A.R.S. §35-323.
5. The pooled investment funds established by the state treasurer pursuant to 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 evidence of indebtedness of this state or any of its counties, incorporated cities or school districts-40% sector limit, 5% issuer limit.
8. Bonds, notes or evidence of indebtedness issued by any county improvement district or municipal improvement district of any state to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the improvement district-40% sector limit, 5% issuer limit. An investment shall not be made if:
  - a. The face value of all such obligations, and similar obligations outstanding, exceeds fifty percent 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.
9. Bonds, debentures, notes or other evidence of indebtedness that are denominated in United States dollars and that carry at a minimum an "A" or better rating, at the time of purchase, from at least two nationally recognized rating agencies-50% sector limit, 5% issuer limit.
10. Repurchase agreements with a maximum maturity of one hundred eighty days-40% sector limit, 20% issuer limit.

Unless part of the above lists of permitted investments, all other investments instruments are hereby prohibited from consideration.

The City shall invest trust and restricted funds in accordance with A.R.S. §35-324, A.R.S. §35-328 and the terms of the trust or controlling documents, if any.

**Table of Permitted Investment**

<b>Item</b>	<b>Investment Type</b>	<b>Sector Limit</b>	<b>Issuer Limit</b>
1	Certificates of Deposit (CDs)	50%	
2	Negotiable/Brokered CDs	50%	5%
3	Commercial Paper	50%	5%
4	Cash Funds/Money Market Accounts	100%	
5	Local Government Investment Pool (LGIP)	100%	
6	U.S. Treasury, U.S. Gov. Agency Obligations/Instrumentalities	100%	

7-8	State or Local Government Agency Obligations	40%	5%
9	Corporate Notes, Asset-backed securities	50%	5%
10	Repurchase Agreements	40%	20%

Following the primary objective of preservation of capital, investments shall be actively managed to take advantage of market opportunities. In so doing, negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposes, to enhance portfolio returns, or to restructure maturities to increase yield and/or reduce risk.

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed to control risk. The Finance and Budget Director will display prudence in the selection of securities to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. In the event of a default by a specific issuer, the Finance and Budget Director shall review, and if appropriate, proceed to liquidate securities having comparable risks.

The Finance & Budget Director shall periodically adjust guidelines and strategies to control risks of default, market price changes and illiquidity.

It is the policy of the City to diversify its investment portfolio.

- Investment funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.
- Diversification strategies shall be periodically reviewed by the Investment Advisory Committee.

The City, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase or in accordance with governing legislation.

Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Maturity decisions will be made based on a variety of factors, including the following:

- Internal factors, such as cash flow projections, debt service, potential CIP outlays, etc.
- The yield curve at various maturity sectors of the market.
- Federal Reserve Bank policy and the financing plans of the U.S. Treasury and Agencies.

Competitive bidding strengthens the investment program in terms of level and consistency of performance. In general, all purchases of investments will be bid competitively and to the extent practical, all purchases will be awarded to vendors yielding the highest returns to the City. The City reserves the right to reject the bid yielding the highest return if the transaction is deemed to be inconsistent with City policy, i.e., maturity, risk, liquidity, etc.

For every investment transaction the City shall conduct a competitive "bid" process, securing quotes from at least three (3) qualified broker/dealer institutions. If the City utilizes an outside investment advisor, the advisor shall follow the same process of securing a minimum of three (3) bids from their list of approved broker/dealers.

A report containing balance and yield information related to liquidity investments such as LGIP, overnight balances, money market funds, and short-term certificates of deposit will be provided to the Finance & Budget Director on a monthly basis.

The following reports related to third party managed investment securities will be provided to the Finance & Budget Director.

- Monthly
  1. Month end Investment Summary. The month-end investments are summarized by type of investment. The report summarizes original cost and market values of investments in the pools and funds.
  2. Earned investment yield for period, year-to-date, and comparison to prior year.
  3. Interest distributed for period.
- Quarterly
  1. Monthly average rate of return on the portfolio.
  2. Average days to maturity.
  3. Monthly portfolio composition.

At a minimum, a report shall be presented annually to the City Manager and Council to update administration on securities held, maturities, investment returns, unrealized gains (losses), and comparisons to established benchmarks, market conditions, prevailing investment strategy, and adherence to the investment policy. Securities will be reported on a market to market basis as defined by the Governmental Accounting Standards Board (GASB).

The report of investment holdings shall be reconciled to the City's custodian bank within thirty (30) days of the close of each month and any discrepancies shall be reported to the Finance & Budget Director.

## Changes to Financial Policies

The City's Comprehensive Financial Policies are reviewed annually, and the entire policy document, with any recommended changes, is generally adopted by City Council at the same time as the annual budget. In June 2020, the City's Comprehensive Financial Policies were overhauled. Minor changes have been made each subsequent year. The table below details the notable changes over the past five years.

Date of Update	Notable Changes
June 2, 2025	<ul style="list-style-type: none"> <li>• Allow a temporary overlap when filling critical positions</li> <li>• Enhance the debt management policy to conform with best practices</li> <li>• Delegates authority to transfer realized vacancy savings for employee payouts</li> <li>• Reformat the investment policy to match the other financial policies</li> <li>• Included a Table of Contents for easier document navigation</li> </ul>
June 3, 2024	<ul style="list-style-type: none"> <li>• Added fund balance requirements for the two dedicated one-half cent sales tax funds</li> <li>• Added authorization to budget vacancy savings and transfer vacancy savings from department budgets</li> <li>• Added a capital assets section establishing capitalization thresholds</li> </ul>
June 5, 2023	<ul style="list-style-type: none"> <li>• Added the Investment Policy. This policy was previously approved by council separately</li> <li>• Reduced the limit for credit/debit card payments accepted for payment of fees and charges from \$25,000 to \$15,000</li> <li>• Licensed professionals are to be used to assess development impact fees</li> <li>• Defines fund and allows for administrative funds to be used to track specific revenues and expenditures</li> <li>• Defines FTE and pooled positions</li> <li>• Defines capital projects</li> <li>• Delegates carryforward adjustments for capital projects to the Finance &amp; Budget Department</li> </ul>
June 6, 2022	<ul style="list-style-type: none"> <li>• Added limits for credit card payments accepted for payment of fees and charges</li> <li>• Added the Public Safety Department to the list of departments allowed to request the hiring of unbudgeted critical public safety positions</li> <li>• Clarified that part time FTE positions represent 2080 compensated hours during the fiscal year</li> <li>• Clarified that the assigned reserve balance is equal six or four months of operating expenditures</li> <li>• Updated technical accounting language to reflect current GFOA Blue Book guidance.</li> <li>• Updated the name of the annual financial report from Comprehensive Annual Financial Report to Annual Comprehensive Financial Report</li> </ul>
June 7, 2021	<ul style="list-style-type: none"> <li>• Added clarification on hiring of unbudgeted critical public safety positions</li> <li>• Removed reference to Capital Improvement Plan Citizen Committee</li> </ul>
June 15, 2020	<ul style="list-style-type: none"> <li>• New Comprehensive Financial Policies Adopted</li> <li>• Added General Fund Tier 1 and Tier 2 fund balance reserve designations</li> <li>• Tier 1: 25% emergency reserve</li> <li>• Tier 2: 10% rainy day reserve</li> <li>• Water and Sewer fund balance requirements amended</li> <li>• Reduced from 9 months operating expenditures plus 5% asset value excluding accumulated depreciation to 6 months operating expenditures including debt service but excluding depreciation</li> </ul>