

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina

Table of Contents and Introduction, Preamble and Objectives

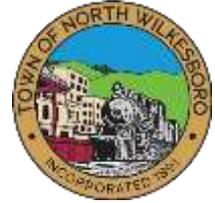


TABLE OF CONTENTS

Preamble and Objectives	1-2
Budgeting Guidelines	3
Capital Budgeting	4
Debt	4
Fund Balance	5
Investments	6-8

PREAMBLE AND OBJECTIVES

Preamble

The Comprehensive Financial Management Policy assembles all of the city's financial policies in one document. They are the tools used to ensure that the city is financially able to meet its immediate and long-term service objectives. The individual policies contained herein serve as guidelines for both the financial planning and internal financial management of the town.

The Town of North Wilkesboro is accountable to its citizens for the use of public dollars. Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. These policies safeguard the fiscal stability required to achieve the town's goals and objectives.

These policies are intended to manage both General Fund and Enterprise functions. The town acknowledges the existence of fundamental and operational difference in these funds. But the town intends to utilize the same financial policy goals and standards where appropriate.

Objectives

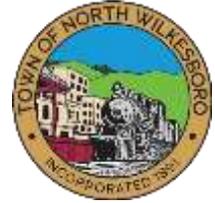
The financial policy is a statement of the goals and standards that will guide the financial management practices of the Town of North Wilkesboro. A financial policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective financial policy will:

- Provide increased public confidence in financial management.
- Provide the Board of Commissioners, Town Manager, Town staff, and Town citizens a framework for measuring the fiscal strength of government finances against established parameters and benchmarks.

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina

Table of Contents and Introduction, Preamble and Objectives

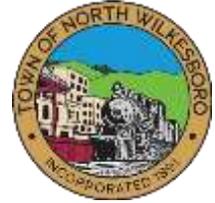


- Contribute significantly to the Town's ability to insulate itself from financial crisis.
- Promote long-term and strategic thinking. The strategic intent articulated by many financial policies necessarily demand a long-term perspective from the organization.

THIS SECTION LEFT INTENTIONALLY BLANK

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina
Budget Guidelines



BUDGET GUIDELINES

This section contains guidelines governing the development of the Town's annual operating budget. The operating budget is the Town's largest financial commitment, and thus deserving of significant care and thoughtfulness during its development

- 1.) The Town will develop an annual budget in conjunction with a stated program of priorities and performance objectives and measures with which to gauge progress towards meeting those objectives.
- 2.) Water and sewer rates will be established at the appropriate level to enable the related funds to be self-supporting. The General Fund shall not subsidize the Water/Sewer Fund.
- 3.) One-time or limited duration revenues such as the proceeds from the sale of properties, grants, gifts, etc. will not be used to fund continuing town operations but will instead be used to fund special projects or one-time expenses.
- 4.) The Board of Commissioners must approve grant acceptance that require a local match.
- 5.) The Town will pursue an aggressive policy seeking the collection of delinquent utility, license, permit, and other fees due to the Town.
- 6.) For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. The Board of Commissioners shall determine the appropriate cost recovery level when establishing user fees. User fees shall be reviewed on a regular basis to calculate their full cost recovery attainment levels, to compare them to the current fee structure, and to recommend adjustments where necessary.
- 7.) The Town shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees, and economic development.
- 8.) The Town shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue updates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increase, or use of fund balance. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget for recurring expenditures.
- 9.) The tax rate will be set each year based on the cost of providing general governmental services and pay debt service. Consideration will be given to future net revenue requirements for capital improvement projects operational expenditures and programmed debt service.

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina
Capital Budgeting, Debt Policies



CAPITAL BUDGETING

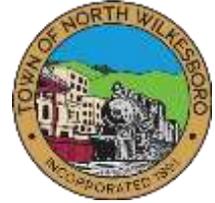
- 1.) The Town will endeavor to create, adopt, and maintain a comprehensive Capital Improvement Plan (CIP) that outlines projected capital expenses for a forecasted period of ten years.
- 2.) When the Town utilizes intergovernmental assistance to finance capital improvements, those projects will be consistent with the capital improvement plan and Town priorities, and with future operating and maintenance costs included in operating budget forecasts.
- 3.) The Town will maintain its assets at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs.
- 4.) The Town will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.
- 5.) The Town will attempt to determine the least costly and most flexible financing method for all new projects.

DEBT POLICIES

- 1.) The Town will take a balanced approach to capital funding utilizing debt funding, draws on capital reserves and/or fund balances in excess of policy targets, and pay-as-you-go (PAYGO) funding.
- 2.) The Town shall aspire to use PAYGO funding whenever possible but may use debt, according to the other guidelines in this policy, to spread the cost across several fiscal years if such an approach is needed to help balance the annual operating budget.
- 3.) When assessing capital project funding, the Town will conduct financial analyses to demonstrate each fund's financial ability to incur such debt under its current revenue/rate structure, and to determine if, when, and to what degree revenue/rate structures need to be adjusted in the event the current revenue/rate structure is not able to accommodate new additional debt.
- 4.) The Town will not use debt whose repayment period exceeds the expected useful life of the asset.
- 5.) General fund net debt as a percentage of estimated market value of taxable property shall not exceed 2.5%.
- 6.) The town considers budgeting a sufficient amount to cover all outstanding debt service to be one of its top priorities when developing the annual budget.

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina
Fund Balance

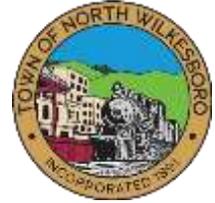


FUND BALANCE

- 1.) The town's fund balance shall be maintained at a level that:
 - a. Provides sufficient cashflow for daily financial operations
 - b. Helps secure and maintain the town's creditworthiness
 - c. Cushions the town against significant economic downturns or revenue shortfalls
 - d. Provides funding for unanticipated emergency expenditures
 - e. Adheres to the Local Government Commission's recommended best practices
- 2.) General Fund unassigned fund balance shall be maintained between 65%-75% of the total annual operating budget of the town.
- 3.) If unassigned fund balance, as calculated as part of the Town's annual audit, is in excess of the 75% threshold, the Board of Commissioners may appropriate or designate the excess for one-time capital expenditures, economic development related expenses, or transfer the excess to a capital reserve fund.
- 4.) The Board of Commissioners may, from time to time, take the unassigned fund balance below 65% for the purposes of a declared fiscal emergency, rare financial opportunity to enhance the well-being of the town, or other such global purpose as to protect the long-term fiscal security of the Town of North Wilkesboro. In such circumstances, the Board of Commissioners shall rebuild the fund balance per the clause below.
- 5.) The Town shall not use fund balance to balance the annual operating budget, except under extraordinary circumstances and with the direction of the Board of Commissioners. If fund balance funds are needed for operating purposes, they shall be appropriated during the fiscal year when/if needed.
- 6.) If, as calculated as part of the Town's annual audit, the General Fund unassigned fund balance is below 65%, the Board of Commissioners will adopt a plan as part of the following year's budget process to restore the unassigned fund balance to the policy level within 36 months from the date of budget adoption. If restoration cannot be accomplished within such a time period without severe hardship to the Town, then the Board will establish a different but appropriate time period.

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina
Investments



INVESTMENTS

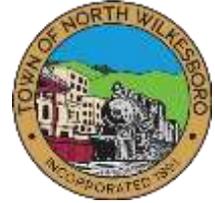
Investment Objectives

The primary objectives of this portion of the policy shall be safety, liquidity, and yield:

- 1.) Safety – safety of the principal is the foremost objective of the Town’s investment policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. Credit risk – the Town will minimize credit risk, which is the risk of loss due to the failure of the security issuer or back, by:
 - i. Limiting investments to the types of securities listed in this policy,
 - ii. Pre-qualifying the financial institutions, broker-dealers, intermediaries, and advisers with which the Town will do business, and
 - iii. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual user will be minimized.
 - b. Interest rate risk – the Town will seek to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rate, by:
 - i. Structuring the investment portfolio so that securities mature to meet the cash requirements for ongoing operations and/or identified capital needs, and
 - ii. Investing operating funds primarily in shorter-term securities and deposits of The North Carolina Capital Management Trust and limiting the average maturity of the portfolio in accordance with this policy.
- 2.) Liquidity – the Finance Director shall prepare adequate forecasts of anticipated cash receipts and disbursements to permit the identification of the liquidity needs of the Town. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may reasonably be anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash need to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Alternatively, a portion of the portfolio may be placed in a mutual fund for local government investment approved in accordance with G.S. 159(C)(8).
- 3.) Yield - the investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constrains and liquidity needs. 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. Securities shall generally be held until maturity with the following exceptions:
 - a. A security with declining credit may be sold early to minimize loss or principal.
 - b. Liquidity needs of the portfolio require that the security be sold.

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina
Investments



Delegation of Authority

Authority to manage cash and the investment program is granted to the Finance Director and derived from G.S. 159 30. The Finance Director shall act in accordance with established written procedures and internal controls for the management of cash and the operation of the investment program consistent with this policy.

Safekeeping & Custody

In order to facilitate the investment program, the Town will maintain a safekeeping account with one or more third-party custodians or similar institutions for all investments or take physical possession of them. The custodial arrangement will be for delivery versus payment.

Reporting

The Finance Director shall prepare and timely file:

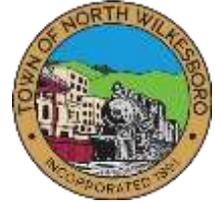
- 1.) Investment and public deposit reports as statutorily required or as required by the Local Government Commission.
- 2.) An investment report to the Board quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the quarter.
- 3.) Such other reports as may, from time to time, be required.

Investment Policy Guidelines

- 1.) General guidelines –
 - a. Funds will be invested with the chief objectives of safety of principal, liquidity, and yield, in that order, as previously discussed herein. All deposits and investments of Town funds will be in accordance with G.S. 159.
 - b. The Town will use a Central Depository to maximize the availability and mobility of cash for all funds that can be legally and practically combined.
 - c. Cash flows will be forecasted and investments will be made to mature when funds are projected to be needed to meet cash flow requirements.
 - d. Prior to investment maturity, the Board of Commissioners shall evaluate market conditions, the Town's cash needs, and other factors as it sees fit before to decide whether/how to reinvest.
- 2.) Liquidity –
 - a. No less than 10% of funds available for investment will be maintained in overnight/deposit investments at any point in time.
- 3.) Maturity –

COMPREHENSIVE FINANCIAL POLICY

Town of North Wilkesboro, North Carolina
Investments



- a. General town investments will mature no longer than 10 years from their purchase date and in accordance with cash flow needs.
 - b. Investments made with proceeds from the long-term lease of Wilkes Medical Center will mature no longer than 15 years from their purchase date and in accordance with cash flow needs.
- 4.) Custody
- a. All investments will be purchased delivery versus payment and, if in certificate form, will be held by the Finance Director in the name of the Town. All non-certificated investments will be held in book-entry form in the name of the Town with the Town's third-party custodian(s).
- 5.) Authorized Investments
- a. The Town may deposit funds into:
 - i. Any Board approved Official Depository, if such funds are secured in accordance with NCGS 159(31)
 - b. The Town may invest Town funds in:
 - i. The North Carolina Capital Management Trust,
 - ii. US Treasury Securities
 - iii. US Agency Securities specifically authorized by NCGS-159,
 - iv. Commercial Paper meeting the requirements of NCGS-159 plus having at least one long term bond rating from a nationally recognized agency. Investment in Asset Backed Commercial Paper will not be permitted under this Policy unless an exception is granted by the Board; and
 - v. Certificates of Deposit in any bank, savings and loan association, or trust company in North Carolina
- 6.) Diversification
- a. No more than 10% of the Town's investment funds may be invested in a specific company's commercial paper and no more than 50% of the Town's investment funds may be invested in commercial paper.
 - b. No more than 25% of the Town's investments may be invested in any one US Agency's securities.
- 7.) Allocation
- a. Investment income will be allocated to each participating fund or account based on a fair and equitable formula determined by the Finance Director