

Town of Sunset Beach Fiscal Policy

Adopted by Town Council on _____

PREAMBLE

The Town shall comply with all the appropriate sections of the North Carolina Local Budget and Fiscal Control Act (N.C.G.S. 159) as well as the generally accepted accounting principles for local governments, as they may change from time to time.

POLICY

I. Budget

In preparation of the annual budget, the Budget Officer and the Town Council shall estimate revenues based upon prior year averages and trends as well as estimates of property value provided by the Assessor of Brunswick County. The Town will estimate revenues in a realistic manner. In accordance with the NC Budget and Fiscal Control Act, tax revenue estimates shall be calculated with a collection rate no higher than the actual collection rate for the immediately-prior year. A revenue-neutral tax rate will be calculated for all reassessment years and this rate will be identified within the budget message document. The operating budget shall reflect the best estimates necessary to deliver services at the level of service determined by the Town Council.

The Town’s Budget Ordinance will make appropriations by function and will show revenues by major sources. Although departmental budgets and line item reports may be made available as back-up or supplemental information, the Town’s Budget Ordinance will define the amounts appropriated for expenditure by area of function.

The Town’s annual operating budget will contain budgeted revenues and expenditures for all functions of the Town except for those items set forth in a Capital Project or Grant Project budget ordinance.

A. Contingency:

During the annual budget process, the Town may set aside up to 2.5% of the annual budget estimate as an unappropriated General Fund Contingency Account. These funds will be available to the Town Council for to meet unexpected expenses during the fiscal year. While use of any contingency funds will likely occur at the recommendation of the Town Administrator or Budget Officer, such use will require formal action by the Town Council to appropriate the funds.

B. Non-Profit Organization Funding:

The Town may allocate an amount of public funds up to one percent (1%) of the total General Fund budget allocations for the purposes of funding nonprofit agencies that benefit the community. For funding consideration, a requesting organization will be required to complete a funding request packet as a part of the Town’s annual budget process. Forms will be made

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available to the public each February for consideration for inclusion in the following fiscal year’s budget. Organizations must provide the requested financial, organization and project information to be considered for funding. Funds shall only be appropriated for public purposes. Requests for funding will only be accepted during the Town’s annual budget preparation process funding window of February 15 – March 31. All complete funding applications will be presented to the Town Council for funding consideration. Incomplete requests will not be considered.

C. Balanced Budget Requirement:

The budget will be a balanced budget in that the sum of the estimated Net Revenues and the Appropriated Fund Balance in each fund shall be equal to the total budgeted Expenditures in that Fund.

D. Budget Calendar:

Town department heads shall make their budget requests and revenue estimates known to the Budget Officer annually by the date fixed by the Budget Officer. Such date shall occur no later than April 30th of each year. The Budget Officer shall present a balanced budget and budget message to the Town Council no later than June 1. The Budget Officer shall provide the Town Clerk a copy of the proposed budget to be made available to the public the same day that it is submitted to the Town Council. The Town Council will adopt a Budget Ordinance and municipal tax rate prior to July 1 of each fiscal year. Capital Project or Grant Project Ordinance are considered in effect until the project is complete and re-adoption of these budgets each fiscal year is not necessary.

E. Inter-period Budgetary Reporting:

The Budget Officer will develop and present to the Town Council at regularly scheduled Council meetings, no less than quarterly, a report that conveys budget and financial information for the Town.

II. **Capital Assets**

A. Capital Asset Listing:

A Capital Asset listing will be developed and subsequently updated each budget year. Capital assets will be defined as assets with an initial, individual cost in excess of the capitalization threshold and an estimated useful life in excess of two years. The individual asset cost shall include both the individual expenditure for the asset and any additional expenditures required to initially place the asset into service. All subsequent expenditures, repairs or maintenance to the asset that do not add value or materially extend asset life will not be capitalized.

B. Capitalization Threshold:

The minimum capitalization threshold for the Town of Sunset Beach shall be \$100,000 for land, buildings and infrastructure and \$5,000 for furniture, equipment and vehicles. Purchased or constructed capital assets will be reported at cost or estimated historical cost. Donated capital assets will be recorded at the estimated fair value at the date of donation. The decision to accept or decline the offer of a donated capital asset rests with the Town Council.

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C. Surplus Assets:

Assets that no longer have a use to the Town may be declared surplus in accordance with the governing statutes found within Article 12 of Chapter 160A of the NC General Statutes. These include methods such as competitive sale, exchange, lease, donation to non-profit organization or other unit of government, trade-in, disposal or any other method that is legally acceptable in the State of North Carolina. *A summary table with the acceptable property disposal options is included as an appendix to this document.*

III. Fiscal Policies

A. Interfund Transfers:

Whenever practical, in lieu of using budgeted interfund transfers, the allocation of direct or indirect costs of services rendered by one fund to another will be recorded as expenditures directly within the receiving fund.

B. Savings Plan / Minimum level of Fund Balance:

It is the policy of the Town of Sunset Beach as set by the Town Council to operate in a fiscally-sound manner. As such, the Town has set up Capital Reserve funds to save for future Capital expenditures on items such as Street Paving, Bike Paths and Future Development or other capital projects. Monies budgeted for use from these funds are for large projects and not ongoing operating expenditures. The Town’s Capital Improvement Plan’s funding needs should be considered when identifying annual amounts to be contributed to or appropriated from these funds.

Additionally, the Town has a Special Revenue Fund set aside for future Beach Erosion needs. This money is invested and held for the Town in case it should have an emergency (or planned) need to address beach erosion.

The general operating budget of the Town should be constructed in such a manner that the year-end Unrestricted Fund Balance in the General Fund is a minimum of 75% of the annual General Fund Budget. This provides cash for approximately nine (9) months of operating expenditures in case the Town should face a catastrophic/emergency situation. While appropriations from Fund Balance may be used within the Town budget, such appropriations are not intended for use for ongoing operating expenditures.

C. Donations:

Restricted donations of funds or property that are accepted by the Town shall be used only for the purpose for which they were given and received. All monetary donations to the Town that are not restricted by the donor for specific purposes will be considered General Fund revenues. Offers of donated assets that do not meet the Town’s capitalization thresholds may be accepted or rejected at the discretion of the Town Administrator. The Town Council shall determine if the Town will accept an offer for the donation of any Capital Assets. Town of Sunset Beach staff will not at any time be responsible for soliciting donations of cash, goods or services on behalf of the Town so as to avoid any potential for mistaking such activities as a quid pro quo arrangements.

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D. User Fees:

The Town provides specific services such as: recycling pick-ups, inspections, building permits, and others, that are over and above the general services provided to the public as a whole. Thus, the rates set for user fees should enable the Town to fully offset the cost of services that are provided so that these costs are not paid with general tax dollars. Budgets will attempt to follow that premise whenever practical. Department heads will review and propose updates for the Schedule of User Fees by the date set forth in the budget calendar as a part of the annual budget process. The Schedule of User Fees will be updated as necessary to accomplish the goals of this policy.

The Town Administrator shall have the authority to exempt the Town from payment of permit fees for projects the Town is undertaking, if it is deemed that any such exempted fee amounts will not materially affect the Town’s revenues or expenditures.

E. Grants:

Grant funding will be used for specific purposes as identified within the Grant Agreement or as identified by Town Council and not for general expansion of the Operating Budget. Grant Funding may be used for a variety of purposes including (but not limited to):

1. Current Town operations
2. Departmental and long-range planning
3. Capital Projects that are identified in the CIP
4. Regulatory requirements
5. Opportunities to address the mission and goals of the Town

Staff will pursue opportunities for grant funding that are consistent with Council’s identified goals and policies, and that are compatible with the Town’s programs and objectives. All grants pursued by staff will be presented to the Finance Director for review of financial requirements and to the Town Administrator for management consideration before the grant application is made. Any awarded funds will be accepted by the Town only after Council review and formal action.

IV. Capital Improvement Plan

A five-year Capital Improvement Plan will be developed and updated annually. Capital Projects will be identified in a Capital Improvement Plan and will be funded through a “Capital Project budget” which may be adopted as a separate action from the adoption of the annual budget ordinance. Capital Project budgets will be used to account for projects that use debt and/or grant financing as a part of the revenue plan or result in the creation or purchase of a Capital Asset. Often Capital Project budgets will extend across multiple fiscal years and annual re-adoption of the Capital Project Budget by the Town Council will not be necessary since the budget will be active for the duration of the project. Amendments to Capital Project budgets must be made through formal action taken by the Town Council.

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V. Debt Management

It is the intent of the Town of Sunset Beach to manage all debt obligations in a fiscally-responsible manner. The Town’s legal debt margin per NCGS §159-150 is calculated by subtracting any outstanding debt from eight percent (8%) of the assessed value of property subject to taxation by the Town.

The authority to incur long-term debt shall be the sole responsibility and privilege of the elected Town Council of the Town of Sunset Beach. From time to time, the administrative staff may recommend the financing or refinancing of certain debt instruments when it is in the best interests of the Town of Sunset Beach. The Town will seek to secure the best financing for Authorized projects. Types, terms and sources of financing will be considered when selecting financing for Town projects. All financing shall conform to the requirements of the North Carolina Local Government Commission.

VI. Contracts

A. Contracting Authority:

In accordance with NCGS §160A-16, the Board grants the Town Administrator the authority to execute contracts up to \$30,000 on behalf of the Board, provided that there are available appropriations to cover the contract amounts within the approved budget. The Board also grants both the Town Administrator and the Finance Director / Budget Officer the authority to execute contracts (of any amount) that have been approved through formal action taken by the Town Council. Contracts under a total cost of \$5,000 may be signed by the applicable Department Head after prior review with the Town Administrator if the amount has been included in the Town’s budget allocations.

B. Pre-audit Requirement:

In accordance with NCGS 159-28(a), all contractual agreements that obligate the Town to pay money within the current fiscal year must include a pre-audit certificate signed by the Town’s Finance Director. Additionally, so that adequate records are available for budgetary allocations for any future period obligations, all contracts shall be routed through both the Town’s Finance Director/ Budget Officer and Town Administrator.

VII. Accounting, Auditing and Financial Reporting

The Town will establish and maintain a high standard of accounting and reporting of revenues and expenditures. These standards will follow the Government Accounting Standards Board (GASB) principles. In addition, they will comply with the generally accepted practices as approved by the North Carolina Local Government Commission.

An annual audit of accounts will be conducted and presented by an independent auditing firm. Upon completion, the audit will be presented and accepted by the Local Government Commission in addition to being presented to the Town Council in a regularly scheduled meeting.

Inter-period reporting will be provided on a budgetary basis (See Section I.E) and as otherwise requested by action of the Town Council.

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VIII. Cash Management and Investments

A. Cash Management:

Except for cash in restricted funds, the Town of Sunset Beach will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles and N.C.G.S. 159.30(e).

Official depositories shall be selected by the Town Council and such action shall be approved by resolution of the Town of Sunset Beach.

The Finance Director shall hereby be deemed a designated officer, authorized to act, within the parameters of the law and this policy, on behalf of the Town in any and all financial activities.

The primary objectives, in priority order, of the cash management activities shall be safety, liquidity, and yield.

Safety of principal is the foremost objective of the cash management program and, accordingly, the activities shall be undertaken in a manner that seeks to ensure the safety of funds on deposit and the preservation of capital.

The Finance Director shall prepare forecasts of anticipated cash receipts and disbursements to permit the identification of the liquidity needs of the Town of Sunset Beach.

The cash management activities shall support the investment activities by maximizing the funds available for investment by assuring that amounts due to the Town of Sunset Beach are promptly collected, that funds received are properly accounted for and deposited daily in an official depository, and that disbursements are properly controlled.

B. Investment Activities:

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield. Only the investments authorized by G.S. 159-30 will be permitted by this policy.

Safety of principal is the foremost objective of the investment program. 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.

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in a mutual fund for local government investment approved in accordance with G.S. 159-30(c)(8).

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

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constraints 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:

- 1. A security with declining credit may be sold early to minimize loss of principal.
- 2. Liquidity needs of the portfolio require that the security be sold.

C. Diversification:

To reduce credit risk, the investments shall be diversified by:

- 1. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), and
- 2. Limiting investment in securities that have higher credit risks.

To reduce interest rate risk, the investments shall be diversified by:

- 1. Investing in securities with varying maturities, and
- 2. Continuously investing a portion of the portfolio in readily available funds such as a mutual fund for local government investment certified by the Local Government Commission pursuant to N.C.G.S. 159.30(c)(8), currently The North Carolina Capital Management Trust.

D. Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal business activity 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 any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial and 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 whom business is conducted on behalf of the Town of Sunset Beach.

E. Delegation of Authority:

Authority to manage cash and the investment program is granted to the Finance Director and derived from N.C.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 investment policy. Procedures should include references to: safekeeping, delivery versus payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral and depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

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IX. Internal Controls

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, third-party misrepresentation, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town of Sunset Beach.

X. Items for Future Consideration

A. Asset Replacement