

Town of St. James

Financial Policy

(As adopted 3-3-21)

Objectives:

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of the Town of St James, North Carolina. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. The main objectives of this policy are:

- To enable the Town to protect itself from financial disaster.
- To establish clear and consistent guidelines that promote long-term financial stability.
- To promote the understanding of linking long-term financial planning with day-to-day operations.
- To direct consideration to the total financial outlook rather than single issue areas.
- To improve short-term and long-term financial credit ability by enabling the Town to attempt to achieve the highest credit and bond ratings possible.
- To afford the Town of St. James citizens, Council Members, and staff, an outline for measuring the financial impact of government services.

Budgeting Policies and Practices:

The Town of St. James has adopted the following policies for budget preparation, presentation, and implementation:

1. The Town will adhere to all budgetary statutes and guidelines as set forth in the North Carolina Local Government Budget and Fiscal Control Act (G.S. 159-7 through G.S. 159-42.1).
2. The Town's proposed budget will be prepared in accordance with all Generally Accepted Accounting Principles.
3. The Town's basis of budgeting for all funds will be modified accrual, the same basis of accounting found within the Town's audited financial statements.
4. The Town's proposed budget will be balanced such that proposed expenditures will not surpass proposed revenues.
5. Budgeted revenues will only be spent for those expenditures for which they are intended.
6. Department budgets are reviewed by the Town Manager and the Finance Director, prior to the presentation of the proposed budget to Council Members. The Council Members will review and provide oversight in the preparation of the proposed budget prior to its adoption.

7. Staff authorization for budget adjustments, as well as an outline for budget adjustments and amendments will be made within the annual budget ordinance.
8. Debt service payments will be budgeted for following the guidelines presented when the loan was issued.
9. In accordance with G.S. 160A-17, funds are to be appropriated to suffice obligations for ongoing contracts.
10. The Town's financial policy will be adhered to in development, implementation, and management of the annual fiscal year budget.

Revenues:

Forecasting

Good revenue management involves the ongoing process of reviewing and evaluating all revenue sources to ensure that incomes from each source are optimal. The Council expects that every attempt will be made to project revenues for the annual budget within at least 5% of actual recognized revenues at the end of each fiscal year. These projections should be based on patterns in growth, the underlying economy, and historical trends in collections.

Ad Valorem Taxes

As prescribed by G.S 159, the Finance Director for the Town of St. James shall estimate revenue from the Ad Valorem Tax levy for the annual budget as follows:

- Total assessed valuation will be estimated based on historical trends, growth patterns, and anticipated new constructions.
- In accordance with state law, the estimated percentage of collections is not to exceed the percentage of levy that was actually collected in the previous fiscal year.
- The Ad Valorem tax rate will be set each year based on the cost of providing general government services, paying debt service requirements as scheduled, and the supplementation of other budgeted revenues in regard to the overall budget. Future revenue requirements will also be given consideration in regard to maintaining service levels as the council sees fit.

Donations

Donations will be spent only toward the intent for which they are given.

One-Time Revenues

One-time or other special revenues will not be used to finance continuing Town operations but will instead be used for the purpose they were received or for funding special projects, when permitted.

Grant Funding

Staff will pursue opportunities for grant funding as they arise. Application will be made after the grant is determined by the Town Manager to be compatible with the Town's programs, objectives, and goals. If the Town Manager deems the potential grants to be compatible, the respective grant will be presented to the Town Council for consideration prior to formal application being made. If funds are awarded for approved grants, they will be accepted after Council review and action, including the creation of appropriate line items, as well as the approval of any associated budget amendments to account for the collection and expending of said funds.

Debt:

Uses of Debt

Debt will be used to finance capital projects or for purchase of equipment that provide value to current and future residents. The Town of St. James will not use debt proceeds for operational needs.

Terms and Structure of Debt

When debt is deemed necessary, it is the expectation of the Town of St. James to put as little strain on operations, while maintaining low interest payments, as possible. The following are to serve as a guideline to how debt is to be termed and structured:

- Capital projects shall only be financed for a period not to exceed the estimated useful life of the project and will normally have a term of 20 years or less.
- The Town will seek the best financing type, debt structure and timeframe for each financing need based on the flexibility to meet the project needs, timing, tax or rate payer equity and lowest interest cost.

Debt Capacity

The Town of St. James' debt capacity for general obligation debt is defined by G.S. 159-55 as limited to eight percent of the City's assessed property values. Town Council has directed that the Town's total debt including interest for the General Fund is not to exceed 25% of total budgeted expenditures in the general fund. (For comparison purposes, in FY21, 25% of total budgeted expenditures totaled \$733,000. The current debt service for FY21 equals \$363,000.)

Fund Balance:

Overview and Purpose

The purpose of having a well-established Fund Balance policy is to provide guidelines to set a reasonable Fund Balance level that is to be maintained for the Town of St. James' major funds, describe the circumstances under which the Town can decrease the balances below the reasonable Fund Balance levels, and describe the procedures to be followed on restoring the fund balance levels to their reasonable levels. The Fund Balance levels that the Town refers to in the policy are the Unreserved or Undesignated Fund Balance. This type of Fund Balance refers to the funds that remain available for appropriation by the Town of St. James after all commitments for future expenditures, required reserves (as defined by State Statutes), and previous Council designations have been calculated. The Town will define these remaining amounts as "available fund balance."

General Fund

At the close of each fiscal year, the Town of St. James' general fund available fund balance is not to be less than 30% of annual general fund net expenditures for the fiscal year without formal consent from the Town Council. 30% was chosen because it is over three times the bare minimum amount (8%) recommended by the Local Government Commission to be retained by local governments and represents approximately 3 months of expenses (or two consecutive months with the highest expenditures). (For comparison purposes, in FY20, the available balance was 94% of general fund expenditures.)

The Council may, from time-to-time, utilize the available fund balance that may make it fall below the 30% policy for the following: declared fiscal emergencies such as a drastic unanticipated revenue shortfall, dealing with a natural disaster or other similar event that threatens the health, safety and wellbeing of the Town's residents, financial opportunities to enhance the Town of St. James, or other such universal purpose as to protect the long-term fiscal security of the Town of St. James. In such circumstances, after the level of available fund balance has been calculated as part of the closing-out process for the fiscal year (usually done with the annual audit process), the Town Council will adopt a plan as part of the following year's budget process to restore the available fund balance to the policy level within 24 months from the date of the budget adoption. If restoration cannot be accomplished within such time period without severe hardship to the Town, then the Town Council may establish a different but appropriate time period, as it sees fit.

After the level of available fund balance has been calculated as part of the closing-out process for the fiscal year, any monies that are available above 30% of the available fund balance may be allocated for appropriation by the Town Council, as they see fit.

Financial Operations and Reporting:

Accounting and Fiscal Reporting

The Town of St. James will establish and maintain its accounting systems according to G.S. 159 and will maintain its records and reporting in accordance with all Generally Accepted Accounting Principles (GAAP) and with all Governmental Accounting Standards Board (GASB) statements.

Financial systems will be maintained and reviewed to monitor expenditures and revenues. The Town of St. James places emphasis on maintenance of an accounting system which provides strong internal budgetary and accounting controls. These controls are to be designed to provide reasonable, but not absolute, assurance regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, such as the annual budget ordinance and the Comprehensive Annual Financial Report (CAFR), as well as maintenance of accountability of assets.

Per G.S. 159-34, an annual audit will be performed by an independent certified public accounting firm which will issue an opinion on the annual financial statements, with a management letter detailing areas that need improvement if required. The Finance Director is instructed to evaluate and select auditing services through a competitive bidding process at a minimum of every four years. Full disclosure is to be provided in all regulatory reports, financial statements, and bond representations.

The Town will maintain the number of funds and accounts necessary for proper and accurate records, as determined by the Finance Director, for proper accounting and management purposes. The Town may maintain the types of funds as outlined in G.S. 159-26, as deemed appropriate for the Town by the Finance Director.

Operational Cash Management

Pre-audits

Per G.S. 159-28(a), "no obligation may be incurred...unless the budget ordinance includes an appropriation authorizing the obligation *and* an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction..." To abide by this statute, for each obligation presented to the Town, the Finance Director must determine if there is an appropriation in the budget ordinance, check to see if sufficient funds remain in the appropriation to cover the amount of the obligation, and affix a signed pre-audit certificate (found in G.S. 159-28(a)) to any purchase orders as assigned per the Town's Purchasing Policy or contracts associated with the obligation. Exempted from this policy are obligations approved by the Local

Government Commission, Payroll expenditures (including associated benefits for employees), and Electronic transactions (such as obligations paid for by credit card or electronic check (e-checks)).

Cash Disbursements

The Town will make disbursements in accordance with G.S. 159-28 and the Town's adopted Purchasing Policy. Disbursements will be made shortly in advance of or on the agreed-upon contractual date of payment unless earlier payment provides a greater economic benefit in favor of the Town of St. James. All invoices must be approved by the Finance Director or his or her designee prior to payment. Proper documentation will be required prior to the disbursement of funds. This documentation will be maintained to meet all GAAP, GASB, auditing standards, and town policies. The Finance Director or his or her designee has the right to request additional information and or documentation from departments, as needed to determine whether or not an invoice is to be paid. Disbursements are to be made using the method(s) considered most efficient at the discretion of the Finance Officer or his or her designee, as approved by the Town Council.

Per G.S. 159-25(b), checks are to be dually signed through a combination of two signatures by the Finance Director, (or a properly designated deputy finance officer), and countersigned by another official of the local government designated by the governing board. The Town of St. James Council has designated the Town Manager, the Mayor or Mayor Pro Tem for this role. Payroll disbursements are to be in accordance with all federal and state regulations, rules and laws and by the Town's Personnel Policy.

Receipts

Any Town of St. James receipts will be collected and deposited as expediently as reasonably possible, as determined by the Finance Director, to provide secure handling of incoming monies and to move these funds into interest earning accounts and investments. Incoming funds received by check will be deposited once the total deposit reaches \$500, per G.S. 159-32 and Town ordinance 2020-05.

Banking Relations

The Town of St. James through the discretion of the Finance Director will evaluate banking service providers on a regular basis to ensure the Town is receiving the services deemed necessary to operate at a competitive rate. The Town will maintain the number of bank accounts as deemed necessary by the Finance Director to facilitate the movement and investment of funds. Deposits may be pooled in accordance with North Carolina General Statutes. The State Treasurer of North Carolina is responsible for enforcing standards of minimum capitalization for all pooling method financial institutions. North Carolina local governments, in turn, rely on the State Treasurer to monitor those financial institutions. The Town will analyze the financial soundness of all financial institutions that it

uses. When designating official depositories and the verification of properly secured deposits, the Town of St. James will comply with the North Carolina General Statutes.

Internal Control and Compliance

The Town intends to maintain a system of internal controls, as developed by the Finance Director, that ensures complete, accurate and timely financial records as well as creates a business system that properly captures and reports financial related information. The Finance Director will provide clarification from time-to-time on Town financial-related policies and procedures and other regulatory and statutory requirements. Per the Personnel Policy as updated for FY22, positions with check signing authority or deemed as critical for financial purposes will be subject to a credit check, in addition to employment, personal, educational, certification, and criminal checks.

Investments

It is the policy of the Town of St. James to retain capital and invest publicly held funds in a manner which provides the highest investment return with the highest level of security while maintaining the daily cash flow requirements of the Town and conforming to all State statutes that govern the investment of public funds. This investment policy applies to all financial assets in the Town's investment portfolio, including debt proceeds.

The Finance Director will oversee the investment of all funds held by the Town of St. James according to the following:

1. Primary significance will be given to the preservation of capital with secondary significance given to the generation of income and capital gains.
2. The Finance Director is responsible for establishing and maintaining a system of internal controls designed to ensure that the assets of the Town are protected from loss, theft, or misuse.
3. Officials and employees involved with the investment process will 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 per state statute.

Capital Improvement Planning

The Town of St. James shall develop a five-year Capital Improvement Plan and review and update the plan annually during its budget process. The Plan shall adhere to the following guidelines:

1. Capital Projects that are included in the Capital Improvement Plan will specifically advance one or more of the Council's Strategic Priorities, as adopted from time-to-time.
2. The Capital Improvement Plan will generally address those capital assets with a value of \$5,000 or more and a use life of a minimum of 3 years.

3. The Town will identify both the projected costs and the potential sources of funding for each capital project within the plan.
4. The Capital Improvement Plan shall incorporate existing needs as well as projections for future capital expenditures necessitated by changes in population, development, or in the economic base of the Town of St. James.
5. The Capital Improvement Plan will be incorporated into the development of the annual operating budget.
6. Future operating and maintenance costs associated with new capital improvements will be projected and included in operating budget forecasts. This is to be in addition to any debt obligations that are estimated to be incurred.
7. The Town's assets are to be maintained at a level adequate to protect the Town's capital investment, to preserve the asset's ability to perform its intended purpose, and to minimize future maintenance and replacement costs.
8. Each year, the Town will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. With this projection, a maintenance and repair schedule will be developed and adhered to and related expenditures should be justified according to the budget document.
9. The Town will attempt to determine the least costly and most flexible financing method for all new projects.

Annual Policy Review:

This policy shall be reviewed on an annual basis. The results of said review will be presented to Council prior to the annual retreat.