

# DRAFT

## Town of Lewisville Comprehensive Financial Management Policy



Adopted \_\_\_\_\_

## **Purpose**

The *Comprehensive Financial Management Policy* assembles all of the Town of Lewisville's financial policies in one document. They are the tools to ensure that the Town is financially able to meet its immediate and long-term service objectives.

The Town of Lewisville is accountable to its residents 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.

Critical to managing these responsibilities is the establishment of financial policies that enable Town officials to manage the Town's financial resources in a prudent manner that meets its current obligations while planning for future financial needs. This document summarizes existing financial policies in place and establishes guidelines for fiscal management decisions. It is recognized that this document cannot encompass or anticipate all financial decisions and it is intended that these policies be applied broadly and yet be flexible to meet specific circumstances as they arise.

## **Objectives**

In order to achieve its purpose, the *Comprehensive Financial Management Policy* has the following objectives for the Town of Lewisville's fiscal performance.

1. To maintain and improve and Town's financial position
2. To link long-term financial planning with short-term daily operations and decision-making
3. To instill confidence in the residents of the Town regarding financial operations
4. To comply with the North Carolina Budget and Fiscal Control Act and the policies of the North Carolina Local Government Commission (the "LGC")
5. To effectively conduct asset-liability management of the Town's balance sheet

## **A. Operating Budget**

The Council shall adopt an operating budget that reflects the concerns, needs, and priorities of the residents of the Town of Lewisville. In addition, the budget shall reflect the community's economic, social, and environmental conditions, as well as its challenges and opportunities.

1. The Town's annual budget ordinance will be balanced in accordance with the Local Government Budget and Fiscal Control Act (G.S. 159-8(a)).
2. Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year (G.S. 159-8(a)).
3. The Town will avoid the appropriation of fund balance for recurring operating expenditures. If at any time the utilization of fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, an explanation of the circumstances of the utilization of fund balance and the strategy to arrest the future use of fund balance shall be affirmed in a resolution by the Council.
4. The Town's annual budget ordinance will be adopted, by fund and department, by each July 1 (G.S. 159-13(a)).
5. In order to focus a higher level of planning throughout all levels of Town government, the annual budget process will focus on future needs through a Capital Improvement Plan, as discussed later in this document.
6. The annual budget process will consist of a series of public meetings where Council and staff discuss needs in relation to the Town's mission and priorities.

## **B. Revenue Policy**

1. Ad valorem tax – As provided by the Local Government Budget and Fiscal Control Act, estimated revenue from the ad valorem tax levy will be budgeted as follows:
  - a. Assessed valuation will be provided by the Forsyth County Tax Assessor.
  - b. The estimated percentage of collection will not exceed the actual collection percentage of the preceding fiscal year, in accordance with State law.

- c. The property tax rate will be set each year based upon the costs of providing general governmental services, meeting debt service obligations, and building or maintaining any reserves or fund balances the Council deems necessary.
2. State shared revenues fluctuate according to the general economic condition of the State and the county. Accordingly, the Town will budget these revenues in a conservative manner using guidance from the North Carolina League of Municipalities and other appropriate resources to determine predicted rates of growth in these revenues.
3. User fees – The Council will set user fees annually by listing such fees within a fee schedule adopted with the annual budget ordinance. User fees will reflect charges for services that can be individually identified and where costs are directly related to the provision of or to the level of service provided. The use of user fees results in the following benefits:
  - a. The burden of the ad valorem tax is reduced.
  - b. User fees are paid by all users, including those exempt from property taxes.
  - c. User fees help minimize subsidization in any instance where there are requirements in order to qualify for the use of the service and the service is not provided to the general public.
  - d. User fees produce information on the demand level for services and help make a connection between the amount paid and the services received.
4. Interest income – Interest income is subject to variability based upon changes in prevailing interest rates, which cannot be predicted with certainty. Such revenue shall therefore be budgeted in a conservative manner within the annual budget ordinance.
5. Grant funding – Staff will pursue opportunities for grant funding. Application for grant funding will be made after a grant has been evaluated for consistency with the Council's goals and compatibility with Town programs and objectives. Staff must have Council approval to apply for a grant that requires a local dollar match. All awarded grants can only be accepted by Council action at which time the related budget shall be established.
  - a. Grants that have been awarded in prior years and are recurring in nature will be included and addressed through the annual budget process.
  - b. Grants that fund operating expenditures but have a funding termination date must fully disclose that fact to the Council prior to acceptance.
  - c. The grant manager for each grant shall be the town manager or his or her designee. The grant manager is responsible for all grant monitoring, compliance, and reporting. The grant manager will provide copies of all documents to the finance officer. The finance officer will maintain a grant file for each active grant.

- d. For grants involving federal funds, the grant manager will ensure that all requirements of the Uniform Guidance, 2 C.F.R. Part 200 are adhered to.
7. Budgetary responsibilities – The town manager shall develop initial budget estimates of applicable revenues. Monitoring of the revenue budget shall be performed by the finance officer in a timely manner throughout the fiscal year and shall include an analysis of actual versus budgeted variances.

### **C. Revenue Spending Policy**

1. The Town will follow a revenue spending policy that provides guidance for programs with multiple revenue sources. The finance department, as directed by the finance officer, will use resources in the following hierarchy as appropriate: bond proceeds, federal funds, State funds, local non-Town funds, and Town funds.
2. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

### **D. Expenditure Policy**

1. Expenditure budgets shall be monitored throughout the fiscal year by department heads, the finance officer, and the town manager. Budget compliance is the responsibility of each department head and the town manager.
2. Budgeted funds will only be spent for categorical purposes for which they are intended. Budget amendments may be made to reflect unexpected expenses and must be approved by vote of the Council. The town manager shall have the authority to transfer appropriations from one line item to another line within a department budget. These changes should not result in increases in recurring obligations such as salaries and benefits. The town manager is further authorized to transfer funds from one appropriation to another in a different department within the same fund with a maximum of \$10,000 provided that such transfer shall be reported to the Council at its next regular meeting and shall be entered in the minutes. No transfers shall be made between funds, except as approved by the Council in the budget ordinance as amended.
3. Budgeted expenditures for debt service for any variable rate debt will be set to at least the average of the prior five years.
4. For continuing contracts, funds will be appropriated in the annual budget ordinance to meet current year obligations arising under the contract, in accordance with G.S. 160A-17.

5. Payroll will be processed in accordance with the requirements of the Fair Labor Standards Act. Overtime and benefit payments will be made in accordance with the Town's personnel policy and the Fair Labor Standards Act.
6. The Town will fund current expenditures with current resources and will strive to avoid balancing budgets utilizing one-time revenues without Town Council consent.

### **E. Fund Balance Policy**

The Town of Lewisville desires to maintain a prudent level of financial reserves to guard its residents against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The fund balance has been accumulated to provide stability and the flexibility to respond to unexpected adversity and/or opportunities.

The primary reasons for a general fund balance policy are to:

1. Plan for contingencies – Because of the volatile revenue sources such as property taxes, sales taxes, and other State shared revenues, local governments will always face challenges when it comes to matching planned revenues with actual expenditures. Reserves can be used to make up for these temporary shortfalls.
2. Maintain good standing with rating agencies – Bond rating agencies consider an adequate level of reserves a sign of credit worthiness because it enhances a government's ability to repay debt on time and in full.
3. Avoid interest expense – Cash reserves may be used rather than debt to fund capital projects.
4. Generate investment income – Reserves can be a source of investment revenue, effectively reducing the burden on the property tax rate. To maintain the reserve's value as a risk mitigation device, investments will remain relatively liquid in compliance with the Town's investment policy.
5. Serve as a cash flow management tool – Reserves can be used to cover times of the year that normally experience low levels of cash flow.
6. Create a shared understanding – A formal reserve policy clearly outlines appropriate use of the reserves.
7. Allow for participation in unexpected opportunities – Reserves can be used to take advantage of unanticipated grants that require the Town to front its own funds to cover expenditures before reimbursement can occur or to cover those grants that require a town match.

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* govern the descriptions used to report fund balance. The statement focuses on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent and breaks total fund balance into five different components:

1. Non-spendable fund balance – Fund balance in this category is inherently non-spendable. An example of a non-spendable item would be inventory.
2. Restricted fund balance – This category has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors, or laws or regulations of other governments.
3. Committed fund balance – This encompasses limitations imposed by the government on itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might like to commit a portion of fund balance to a capital project or capital reserve.
4. Assigned fund balance – This category is for the portion of fund balance that is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or an official designated for that purpose. For example, a portion of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or a portion could be assigned to pay for an upcoming special project. A typical assigned fund balance item is the amount of fund balance that is appropriated in the subsequent year's budget ordinance that is not already classified as restricted or committed.
5. Unassigned fund balance – This encompasses all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.

The North Carolina State Treasurer recommends a minimum unassigned fund balance in the general fund of 8%. The Town of Lewisville will maintain a general fund unassigned fund balance that significantly exceeds the minimum 8%. The percentage is to be determined by dividing the unassigned fund balance amount by actual expenditures of the then completed fiscal year. The goal is to maintain an unassigned fund balance of greater than 65%.

The unassigned fund balance will be utilized to avoid cash flow interruptions, generate interest income, eliminate the need for short-term borrowing, and to maintain the Town's good credit standing in the community. The unassigned fund balance may be purposefully drawn down below the target percentage for emergencies, economic influences, nonrecurring expenditures, or major capital projects.

If the unassigned fund balance falls below the target percentage for two consecutive fiscal years, the Town will replenish funds by direct appropriation in the next budget developed for the fiscal year after the occurrence is known. In that instance, the Town will annually appropriate 25% of the difference between the target percentage level and the actual balance until the target level is met. In the event appropriating 25% is not feasible, the town will appropriate a lesser amount and shall reaffirm by Council resolution its commitment to fully replenish the fund balance over a longer period of time.

Any unassigned fund balance that exceeds the target goal range may be used to reduce general fund debt.

### **F. Capital Improvement Plan**

1. The Town will update and readopt annually a five-year capital improvement plan (CIP) which projects capital needs and details the estimated costs, description, and anticipated funding sources for capital projects.
2. The annual update of the CIP will be conducted in conjunction with the annual operating budget process. The first year of the five-year CIP will be the basis of formal fiscal year appropriations during the annual budget process.
3. A programming or cost estimation study is eligible for inclusion in the CIP for a project for which a future request is being considered. Such a study is encouraged in order to generate reliable cost estimates for the CIP.
4. The Town acknowledges pay-as-you-go financing as a significant capital financing source, but will ultimately determine the most appropriate financing structure for each capital project both on an individual basis after examining all relevant factors of the project and in conjunction with the funding of the entire CIP.

### **G. Fixed Asset Capitalization**

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed assets will be capitalized at cost. Donated capital assets will be capitalized at their estimated fair value on the date of the donation. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend assets' lives shall not be capitalized.

### **H. Accounting, Auditing, and Financial Reporting**

The Town will maintain accounting systems in compliance with the North Carolina Local Government Budget and Fiscal Control Act. The Town will maintain accounting systems that

enable the preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

1. Financial systems will be maintained to enable the continuous monitoring of revenues and expenditures or expenses with complete sets of monthly reports provided to the Council and the Town Manager. Online, real time, view only, access to the financial system will be made available to department heads and other staff as much as practical and its use encouraged.
2. The Town will place emphasis on maintenance of an accounting system which provides strong internal budgetary and financial controls 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 report, as well as the accountability of assets.
3. An annual audit will be performed by an independent certified public accounting firm which will issue an opinion on the annual financial statements as required by the North Carolina Local Government Budget and Fiscal Control Act.
4. The finance officer will prepare a Comprehensive Annual Financial Report (CAFR) in compliance with established criteria to obtain the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. The CAFR will be submitted to that award program each year.
5. The finance officer will develop and maintain a financial procedures manual as a central reference point and handbook for all financial, accounting, and recording procedures.
6. The town manager or his or her designee will establish, document and maintain a computer disaster recovery plan and will provide for the daily backup of data and the offsite storage of the same.

### **I. Debt Issuance and Management**

The Town of Lewisville maintains conservative financial policies to assure strong financial health both in the short and long-term. The Town, although an infrequent issuer of debt, does recognize the importance of debt management as a tool to finance large capital investments such as property acquisitions and the construction of new and replacement infrastructure.

Maintaining the Town's capacity to access long-term financing is an important objective of the Town's financial policies. The Town is committed to having strong financial policies, accounting controls, and detailed budgets. Together, these tools provide for prudent management of the Town's finances and provide for its financial health.

This policy sets forth the criteria for issuance and repayment of debt. The primary objective of the debt policy is to establish criteria that will protect the Town's financial integrity while providing a funding mechanism to meet the Town's capital needs. The underlying approach of the Town is to borrow only for capital improvements that cannot be funded on a pay-as-you –go basis. The Town will not issue long-term debt to finance current operations.

Debt will only be incurred for financing capital assets that, because of their long-term nature or because of budgetary restraints, cannot be acquired from current or budgeted resources. Long-term debt may be issued to finance capital acquisitions, finance land development, and refinance existing long-term debt.

The Debt Management Section, of the North Carolina State and Local Government Finance Division, counsels and assists local governments in determining the feasibility of a project, the size of the financing, and the most expedient form of financing. Upon approval by the Local Government Commission, the Division handles the sale and delivery of the debt and monitors its repayment.

All debt issued will be in compliance with this policy as well as all applicable State laws.

1. Long-term debt may **not** be issued to finance operating costs.
2. The Town will seek to structure debt and to determine the best type of financing for each financing need based on the flexibility needed to meet project needs, the timing of the project, and the structure that will provide the lowest interest cost in the circumstances.
3. Debt financing will be considered in conjunction with the approval by the Council of the Town's CIP.
4. The maximum term of any debt, except debt for land development, shall be the useful life of the asset to a maximum of 25 years. The maximum term for debt for land development shall be 10 years.
5. The Town will strive to maintain a high level of pay-as-you-go financing for its capital improvements.
6. Debt affordability
  - a. The net debt of the Town, as defined in G.S. 159-55, is statutorily limited to 8% of the assessed valuation of the taxable property within the Town. The Town will strive to maintain a net debt level of no greater than .5%.
  - b. Debt service as a percentage of the operating budget will not exceed 9%.

7. The Town will seek to employ the best and most appropriate strategy to respond to a *declining* interest rate environment. That strategy may include, but does not have to be limited to delaying the planned issuance of fixed rate debt, examining the potential for refunding of outstanding fixed rate debt, and the issuance of variable rate debt.

#### **J. Operating Expenditure Guidelines**

1. All expenditures must be made only after appropriate approvals have been attained and appropriation through the budget process has been approved.
2. In all operating expenditures the Town will strive to balance prudent decision making with fair market considerations in order to receive optimal value for the funds being expended. Purchases should be made in a cost effective manner but should also reflect the Town's financial, social, and environmental goals.
3. Invoices for any department purchases are to be paid only after the appropriate signatures authorizing the expenditure have been made. Any expenditure made without authorized budget authority approval, cannot be paid. Any such expenditure may cause the claim for payment to be the personal obligation of the individual implicitly or explicitly providing the payment approval. In the event of a declared emergency, approval procedures may be temporarily waived or modified.
4. Purchase orders approved by the finance officer are required for all purchases greater than \$200.
5. Contracts will be required for all services to be provided to the Town. Contracts in excess of \$10,000 require Council approval. Change orders to existing paving contracts may be approved by the town manager up to \$40,000.
6. In accordance with the North Carolina Budget and Fiscal Control Act (G.S. 159-26(d)), the Town shall maintain an accounting system that records and shows the encumbrances outstanding against each category of expenditure appropriated in its budget ordinance.

#### **K. Investment Policy**

Preservation and safety of assets is a higher priority than return on investments. Therefore, the Town of Lewisville will seek a reasonable return on its investments while also preserving the original capital investment. It is the policy of the Town to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the Town and conforming to all State statutes governing the investment of idle funds. This investment policy applies to all financial assets of the Town except authorized petty cash and debt proceeds which are accounted for and invested separately.

The Town's objectives in managing the investment portfolio, in order of priority, are safety, liquidity, and yield.

1. Safety – 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.
2. Liquidity – The investment portfolio shall remain sufficiently liquid to meet all operating and debt service cash requirements that may be reasonably anticipated.
3. Yield – The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary, economic, and interest rate cycles, taking into account investment risk constraints and liquidity needs.

The Town of Lewisville is empowered by North Carolina G.S. 159-30(c) to invest in certain types of investments. The Council approves the use of the following investment types, the list of which is more restrictive than G.S. 159-30(c):

1. The Town may utilize fully collateralized deposits or certificates of deposit with any bank, savings and loan association, or trust company that utilizes the pooling method of collateralization and that maintains an office in the State of North Carolina. North Carolina General Statutes allow the State Treasurer and the Local Government Commission to prescribe rules to regulate the collateralization of public deposits in North Carolina banks. These rules are codified in the North Carolina Administrative Code – Title 20, Chapter 7 (20 NCAC 7). The pooling method of collateralization under 20 NCAC 7 allows depositories to use an escrow account established with the State Treasurer to secure the deposits of all units of local government. This method transfers the responsibility for monitoring each bank's collateralization and financial condition from the Town to the State Treasurer. The Town will only maintain deposits with institutions using the pooling method of collateralization.
2. Participating shares in a mutual fund for local government investment, provided that the investments of the fund are limited to those qualifying for investment under G.S. 159-30(c) and that said fund is certified by the Local Government Commission. The only such certified fund is the North Carolina Capital Management Trust.

#### **L. Review and Revision**

The Town of Lewisville will formally review this set of financial and budgetary policies at least once every three years.