County of Dare

North Carolina

Financial Policies

Introduction

The County of Dare has long maintained comprehensive financial policies covering a broad range of the elements of the County's financial plans and financial systems that underlay the management of overall financial resources. These policies have major objectives to be achieved that include:

- **I.** To link long-term financial planning with short-term daily operations and decision making.
- **II.** To maintain and improve the County's financial position.
- **III.** To maintain and improve the County's credit ratings by meeting or exceeding the requirements of rating agencies through sound financial policies.
- **IV.** To maintain and increase investor confidence in the County and to provide credibility to the citizens of the County regarding financial operations.
- **V.** To comply with the North Carolina Budget and Fiscal Control Act and the policies of the North Carolina Local Government Commission (the "LGC").
- **VI.** To effectively conduct asset-liability management of the County's balance sheet.

Operating Budget

I. The County's Annual Budget Ordinance will be balanced in accordance with the Local Government Budget and Fiscal Control Act (G.S. 159-8(a)).

II. The County's Annual Budget Ordinance will be adopted by each July 1 (G.S. 159-13(a)).

III. In order to force a higher level of planning throughout all levels of County government, the annual budget will be developed using a biennial cycle. Every two years the budget document will be developed to include a current year budget as well as a second year, planned budget. The following year's budget process will then consist of updating the previously developed planned budget.

Revenue Policy

I. Ad Valorem Tax – As provided by the North Carolina Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
   - Assessed valuation will be estimated based upon historical trends and growth patterns in a conservative manner.
   - The estimated percentage of collection will not exceed the actual collection percentage of the preceding fiscal year, in accordance with State law.
   - 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 Board deems necessary.

II. Economically Sensitive and Weather Sensitive Revenues – The County has certain tourism-related revenues, specifically occupancy and sales taxes that can be adversely affected by regional and national economic conditions and can be significantly adversely affected by weather, especially hurricanes or the threat of hurricanes. Such revenues, while having the capability of substantial annual growth, shall be budgeted in a conservative manner, at a rate of growth less than that historically experienced, within the Annual Budget Ordinance.

III. User Fees **–** The Board of Commissioners (the "Board") will set user fees annually by listing such fees within the Annual Budget Ordinance. The user fees will maximize 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.
   - Emphasis of user fees results in the following benefits:
     - The burden on the Ad Valorem tax is reduced.
     - User fees are paid by all users, including those exempt from property taxes.
     - 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.
     - User fees produce information on the demand level for services and help to make a connection between the amount paid and the services received.

IV. Interest Income – Interest income is subject to variability based upon changes in prevailing interest rates, which can not be predicted with certainty. Such revenue shall therefore be budgeted in a conservative manner within the Annual Budget Ordinance and shall comply with the Asset – Liability Management section of this policy.

V. 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 Board's goals and compatibility with County programs and objectives. Staff must have Board approval to apply for a grant for any amount over $50,000 and for any grant that requires a local dollar match. All awarded grants can only be accepted by Board action at which time the related budget shall be established.
   - Grants that have been awarded in prior years and are recurring in nature will be included and addressed through the annual budget process.
   - Grants that fund operating expenditures but have a funding termination date must fully disclose that fact to the Board prior to acceptance.
   - The grant manager for each grant shall be the related department head. The grant manager is responsible for all grant monitoring, compliance and reporting. The grant manager will provide copies of all documents to the Finance Department. The Finance Department will maintain a grant file by fiscal year for each active grant.
   - For grants involving federal funds, the grant manager is responsible for checking the list of federally debarred contractors prior to awarding any contracts.

VI. Appropriation of Fund Balance – Fund balance originally appropriated with adoption of the General Fund annual operating budget shall not exceed 3% of the prior fiscal year's budgeted expenditures, unless done per Section II of the Reserve/Fund Balance section of this policy.
   - Any further appropriation of fund balance in the General Fund during the fiscal year shall require five "yes" votes from the seven member Board.

VII. Budgetary Responsibilities – Revenue initiating departments shall develop initial budget estimates of applicable revenues. Those estimates are to be supported by variables (base, rate, etc.) that comprise such revenue. Monitoring of the revenue budget shall be performed by the department and the Finance Department in a timely manner throughout the fiscal year and shall include an analysis of actual versus budgeted variances. Compliance of revenue with all laws and/or regulations is primarily the responsibility of the revenue initiating department.

VIII. Revenue Spending Policy: For projects or programs with multiple revenue sources, and for all County funds (General, Water, etc….), revenues are used and expended in the following order: bond and other debt proceeds, federal grant funds, State grant funds, federal funds other than grants, State funds other than grants, local non-County funds, and County funds.

IX. Fund Balance Spending Policy: For purposes of fund balance classification, expenditures made from fund balances are to be made from restricted fund balance first, followed by committed fund balance, then assigned fund balance and lastly unassigned fund balance. A deviation by the Finance Director or County Manager from this policy is authorized if such deviation is in the best interest of the County.

Expenditure Policy

I. Expenditure budgets shall be monitored throughout the fiscal year by department heads, the Finance Department and the County Manager. Budget compliance is the responsibility of the department head and the Finance Director.

II. Budgeted funds will only be spent for categorical purposes for which they are intended. The annual operating budget ordinance defines staff authorization for operating budget adjustments. Appropriations of debt proceeds will be made only for the purpose for which such debt instrument was issued or for the payment of debt principal and interest. Donations will be spent only toward the intent for which they were given.

III. Budgeted expenditures for debt service for any variable rate debt or synthetic variable rate debt will be set to at least the average of the prior five years.

IV. 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.

V. 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 County's Personnel Ordinance.

VI. The County will utilize non-capital operating leases for the procurement of copiers, for multifunction copiers/printer type machines and for personal computers.

VII. The County will fund current expenditures with current resources and will strive to avoid balancing budgets utilizing one-time revenues.

VIII. The County will employ the use of the carryover method for reappropriation of outstanding purchase orders and contracts as of the end of each fiscal year into the new fiscal year. The process shall be explained in each year's budget ordinance.

Reserve/Fund Balance Policy

I. In accordance with State statute, appropriated fund balance in any fund will not exceed the sum of cash and investments less the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts.

II. The County will maintain a General Fund unreserved and undesignated fund balance that significantly exceeds the minimum eight percent (8%) required by the LGC. The percentage is to be determined by dividing the unreserved and undesignated fund balance amount by actual expenditures. The target goal of the County for the General Fund unreserved and undesignated fund balance shall be 20% within a range of 19 to21% of the actual expenditures of the then completed fiscal year.
    - <u>Purpose of Reserve</u>: These funds will be utilized to avoid cash flow interruptions, generate interest income, eliminate the need for short-term borrowing, guard against the effects of an economic downturn, guard against the effects of natural disasters, and maintain the County's credit ratings.
    - <u>Reserve Drawdown</u>: The fund balance may be purposefully drawn down below the target percentage for emergencies, nonrecurring expenditures, or major capital projects.
    - <u>Reserve Replenishment</u>: If the fund balance falls below the target percentage for two consecutive fiscal years, the County will replenish funds by direct appropriation in the next budget developed for the fiscal

year after the occurrence is known. In that instance, the County 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 County will appropriate a lesser amount and shall reaffirm by Board resolution its commitment to fully replenish the fund balance over a longer period of time.

III. Any General Fund unreserved and undesignated fund balance that exceeds the target goal range may be transferred for the following uses:
   - to the School Capital Reserve Fund;
   - to the Disaster Recovery Fund;
   - to the Special Separation Allowance Pension Trust Fund;
   - to a trust fund for retiree postemployment health benefits liability; or
   - for the establishment of or addition to a termination/hedge reserve.

IV. The County will appropriate within the annual budget a Contingency appropriation each fiscal year of at least $300,000.

V. The County shall maintain a Disaster Recovery Special Revenue Fund and the County shall strive to maintain an unreserved and undesignated fund balance within that fund of at least $750,000.

VI. The County shall maintain a School Capital Reserve Special Revenue Fund and all funds accumulated shall be used towards debt service on school related debt and for local current expense for new, additional schools.
   - The Board has committed the equivalent of 3.5 cents of the base General Fund property tax rate to the purposes listed immediately above. Any funds used for local current expense for new, additional schools shall be retained in the General Fund and not transferred to the School Capital Reserve Fund.
   - The 3.5 cent commitment shall be recalculated to an equivalent rate to generate the same dollar amount upon a revaluation of the property tax base.
   - The County shall retain $450,000 of proceeds from the Article 44 sales tax in the General Fund. The balance of the proceeds shall be budgeted within the School Capital Reserve Fund.
   - All Public School Building Capital Fund (“ADM money”) shall be budgeted within the School Capital Reserve Fund and shall be used for debt service from school related debt.

VII. If the County enters into a swap agreement and incurs the risk of a potential swap termination payment, or if the County issues some form variable rate debt, the County will create a termination/hedge reserve within the General Fund, or for termination payment risk, the County may instead obtain a non-reimbursable insurance policy for swap termination payments from a ‘AAA’ or ‘AA’ rated monoline bond insurer.
   - The amount that budgeted debt service exceeds actual debt service expenditures for debt issues subject to a swap shall be reserved up to the potential swap termination payment as of each June 30th.

Asset-Liability Management

I. The County will seek to incorporate coordinated investment and debt structuring decisions with the goal of such coordination being to use each side of the balance sheet to mitigate, or hedge, cash flow risks posed by the other side of the balance sheet.

II. The County considers short-term investments to be effective hedges to variable rate debt because movements in interest rates should have offsetting impacts upon both.
   - Given the prevalent patterns of business, economic and interest rate cycles, the County's policy will be to strive to match temporary increases in interest income to temporary increases in interest expense through the use of variable rate debt or synthetic variable rate debt.
   - This policy recognizes that variable rate debt generally offers lower interest costs and that the use of higher interest income to offset higher interest expense is preferable to creating a budget imbalance due to reliance upon temporarily increased interest income.

III. The General Fund balance reserved for said purpose and/or the General Fund unreserved and undesignated fund balance shall be the source of funds for any potential swap termination payments. Adequate liquidity shall be maintained in the pooled investment portfolio to provide liquidity for any potential swap termination payments.

IV. The Finance Director is designated to monitor and report on financial market conditions and their impact on performance of debt, investments, and any interest rate hedging products implemented or under consideration.

V. The Finance Director is designated as the individual responsible for negotiating financial products and coordinating investment decisions for debt structure. The Finance Director is designated as the individual responsible for recommending debt structure to the Board.

VI. The County shall incorporate the use of variable rate debt or synthetic variable rate debt, as allowed by the Debt Management Section of the LGC, into its debt structure. Unhedged variable or synthetic variable rate debt shall not exceed 20% of the County's total, non-Utility debt outstanding.

Capital Improvements Policy

I. Capital Improvements Plan

- The County will update and readopt annually a five-year capital improvements plan (CIP) which projects capital needs and details the estimated costs, description and anticipated funding sources for capital projects.
- 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.
- The CIP will generally address those capital assets with a value of $50,000 or more and a useful life of five years or more.
- 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 generate reliable cost estimates for the CIP.
- The County expects to see new capital items generally first appear in the last year of the CIP.
- The County 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.
- The County will only consider capital project requests from the Dare County Board of Education if that entity participates in the CIP process unless dictated otherwise by State or federal mandates or new sources of funds, such a State bond issue for local construction.
- The County will update and readopt annually a seven-year CIP for the Water Fund (Utility System) which projects capital needs and details the estimated costs, description and anticipated funding sources for capital projects. Pay as you go capital improvement funding will be funded in a range of 35% to 50% of the system's capital improvement plan. This percentage is measured as an average over several years to recognize the effect upon the % of a major debt issuance.

II. Capital Formation

- The County's one percent realty transfer tax is the primary revenue source for the Capital Reserve Special Revenue Fund. The Capital Reserve Fund is the funding source for pay-as-you-go financing and for debt service payments for debt financed projects in the CIP.
- Given the historical volatility of the realty transfer tax, the five year projections of revenue used to complete the CIP shall be very conservative.
- The School Capital Reserve Fund and the revenues thereby committed are the primary funding sources for the ten-year School Facilities Plan financed through the 2001, 2002, 2004 and 2005 certificates of participation.

III. Fixed Assets

- The capitalization threshold for fixed assets shall be $5,000. The threshold will be applied to individual fixed assets and not to groups of fixed assets. Fixed assets will only be capitalized if they have a useful life of at least two years following the date of acquisition. A physical inventory of capitalized fixed assets will be performed, either simultaneously or on a rotating basis, so that all fixed assets are physically accounted for at least once every four years.

Debt Policy

I. 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. Debt will not be used for operational needs. Debt financing can include general obligation bonds, revenue bonds, certificates of participation, lease/purchase agreements, special obligation bonds, or any other financing instrument allowed under North Carolina law.

II. The County 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, taxpayer or rate payer equity, and the structure that will provide the lowest interest cost in the circumstances.

III. Debt financing will be considered in conjunction with the approval by the Board of the County's CIP.

IV. Capital projects financed through the issuance of bonds, installment financings or lease financings will be financed for a period not to exceed the expected useful life of the project.
   - Non-Utility debt will normally have a term of 20 years or less. In no instance will the term of non-Utility debt exceed 25 years.
   - Utility (Water) debt will normally have a term of 20 years or less. In no instance will the term of Utility debt exceed 30 years.

V. The County will strive to maintain a high level of pay-as-you-go financing for its capital improvements.

VI. Debt Affordability
   - The net debt of the County, as defined in G.S. 159-55, is statutorily limited to 8% of the assessed valuation of the taxable property within the County. The County will utilize a self-imposed ceiling of 4%.
   - Total General Fund debt service will not exceed any limits imposed by the LGC. As a guide, formulas established by the LGC and rating agencies will be monitored and appropriately applied by the County. Debt service as a percentage of the operating budget will be targeted at 14% to 16%.
   - However, it is recognized that the debt service burden of the debt issued for schools in 2001, 2002, 2004 and 2005 will raise this ratio significantly, but temporarily, above this target, reaching as high as approximately 22% in FY 2007, until the payoff of the Series 2003 General Obligation Refunding Bonds in fiscal year 2011.
   - The County will strive to achieve amortization of 60% or more of its non-Utility debt principal within ten years.

VII. The County will seek to structure debt in the best and most appropriate manner to be consistent with the Asset – Liability Management section of this policy.

VIII. The County's Utilities System Revenue Bonds are supported by rates and charges. Fund balances (net assets) are maintained to provide additional liquidity for the utility system. Revenue bond coverage, as defined by the bonds' General Indenture, will be maintained at not less than 1.5 times.

IX. The County 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. The

County will seek to employ the best and most appropriate strategy to respond to an increasing interest rate environment. That strategy may include, but does not have to be limited to, the issuance of variable rate debt (an historically lower interest cost), the use of a forward starting variable to fixed swap, and the use of forward delivery fixed rate debt.

X. The County will monitor the municipal bond market for opportunities to obtain interest rate savings by refunding by forward delivery, currently refunding or advance refunding outstanding debt. The estimation of net present value savings for a traditional fixed rate refunding should be, at a minimum, in the range of 2.5% to 3% of the refunded maturities before a refunding process begins. The estimation of net present value savings for a synthetic fixed rate refunding should be, at a minimum, in the range of 5% to 6% of the refunded maturities before a refunding process begins.

XI. The County will strive for the highest possible bond ratings in order to minimize the County's interest costs.

XII. The County will normally obtain three debt ratings (Fitch Ratings, Moody's, Standard & Poor's) for all publicly sold debt issues.

XIII. While some form of outstanding debt exists, the County will strive to have a portion of that debt in the form of general obligation debt.

XIV. For all years that the County has greater than $50 million of publicly sold debt outstanding, the County will provide annual information updates to each of the debt rating agencies if desired by those agencies.

XV. The County will use the Comprehensive Annual Financial Report (the "CAFR") as the disclosure document for meeting its obligation under SEC Rule 15c2-12 to provide certain annual financial information to the secondary debt market via various information repositories.

XVI. The County recognizes the significance of the debt portfolio and the need for the ability to properly manage and maintain that portfolio. The Finance Director will maintain a current database of all debt utilizing MunEase software or equivalent.

Debt Compliance

The Finance Director or his or her designee is responsible for the implementation and performance of all items within this section.

I. Arbitrage Rebate
   a. Annual arbitrage rebate calculations will be performed by an external qualified expert for each debt issue:
      i. With an original payment term of five years or greater; or
      ii. With an original payment term of five years or less that does not use an arbitrage spenddown calculation.
         1. For debt issues of 59 months or less and uses an arbitrage spenddown calculation, staff may perform rebate calculations if such calculation is determined to be necessary or required.
   b. Any liabilities determined by the annual arbitrage rebate calculations will be recorded as a liability in the general ledger and if applicable, a deposit shall be made into a trustee held arbitrage rebate account to bring the balance of the account to the calculated liability.
      i. If an arbitrage rebate calculation subsequently reduces a calculated liability, the recognized liability and if applicable, the trustee held arbitrage rebate account, may remain over accrued and over deposited at the discretion of the Finance Director.
   c. Upon each five year arbitrage payment date for each debt issue, the required arbitrage rebate payment shall be made to the IRS, if applicable.
   d. Records of the following will be maintained for the life of the debt plus three years:
      i. The computation of the bond yield;
      ii. Annual arbitrage rebate computations;
      iii. Computation of yield reduction payments, if applicable;
      iv. Any and all forms 8038-T that must accompany payments to the IRS; and
      v. Any and all forms 8038-R submitted for refunds of prior arbitrage rebate payments.

II. Bond Proceeds
   a. On a continual basis ensure that bond proceeds are used in compliance with the requirements of the related debt documents and LGC approvals.
   b. On an annual basis review and take any necessary actions to see that bond proceeds are timely spent;
      i. The review will be performed in conjunction with annual arbitrage rebate calculations.

III. Bond Financed Property
   a. Annually, in conjunction with annual audit preparation, review building uses for compliance with the related debt documents.
   b. Continually monitor building uses for compliance with the related debt documents.

IV. Covenants
   a. Maintain a list of covenants required by all debt documents by debt issuance and annually document compliance with such covenants.

V. General Requirements
   a. All records necessary to support the tax-exempt status of the debt will be maintained for the life of the debt plus three years.
   b. For each debt issue except for capitalized leases of a term of 59 months or less, bond counsel shall be required to prepare and distribute a complete set of documents relating to the debt, including but not limited to:
      i. Federal tax or information returns (8038 series);
      ii. Transcripts, official statements and other offering documents;
      iii. Minutes and resolutions authorizing the issuance of the debt;
      iv. Certifications of the issue price of the bonds, if applicable;
      v. Formal elections approving the bond issue, if applicable; and
      vi. Formal elections of alternate accounting methodology, if applicable.
   c. The following items shall be maintained for the life of the debt plus three years, if applicable:
      i. Appraisals, demand surveys, or feasibility studies;
      ii. Documents related to government grants associated with construction, renovation or purchase of debt-finaned facilities;
      iii. Publications, brochures and newspaper articles for or related to a debt financing;
      iv. Trustee statements for the debt financing;
      v. Correspondence (letters, emails & faxes) for debt financings;
      vi. Reports of any prior IRS examinations of the County or of a debt financing;
      vii. Records documenting the allocations of earnings from investments relating to debt financings; and
      viii. Records of investments relating to a debt financings for:
         1. Investment contracts;
         2. Credit enhancements;
         3. Financial derivatives; and
         4. Bidding of financial products.

VI. Other
   a. If a refunding escrow requires the future purchase of a zero coupon SLGS security the Finance Director shall create and maintain a tickler file for the future occurrence and shall contact the relevant trustee to ensure that the proper purchase is executed by the trustee.
   b. Records documenting the use of debt proceeds shall be maintained in the accounting system and/or the Finance Department or other location where indicated for:
      i. Expenditures of proceeds for construction or other activities;

ii. Expenditures of proceeds for issuance costs;
iii. Copies of requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks relating to the use of proceeds;
iv. Copies of contracts entered into for the use of the proceeds (County Manager);
v. A record of expenditures incurred prior to issuing debt and subsequently reimbursed from proceeds;
vi. Fixed asset records;
vii. Depreciation schedules for debt financed depreciable property; and
viii. Fixed asset records that track purchases and sales of debt financed assets.
    1. All of the above items are otherwise required by debt documents or other County policies and procedures.

VII. Private Business Use
- a. If any trade or business activities by or with non-governmental entities or persons occurs with respect to debt financed facilities during the life of the related debt, records of the activity will be maintained to include at least:
  - i. Management and other service agreements;
  - ii. Research contracts;
  - iii. Naming rights contracts;
  - iv. Ownership documentation;
  - v. Leases;
  - vi. Subleases;
  - vii. Leasehold improvement contracts;
  - viii. Joint venture arrangements;
  - ix. Limited liability corporation arrangements; and
  - x. Partnership arrangements.

VIII. Continuing Disclosure
- a. A record shall be maintained detailing each debt issue that is subject to continuing disclosure requirements and the documents and additional information required to be disclosed.
- b. Continuing disclosure for the prior fiscal year end shall be filed by each January 31.
- c. Material event notices as required, determined by the County Attorney and by bond counsel shall be timely filed.
- d. Confirmation of each instance of continuing disclosure shall be filed with the LGC.

Accounting, Auditing and Financial Reporting

I. The County will maintain accounting systems in compliance with the North Carolina Local Government Budget and Fiscal Control Act. The County will maintain accounting systems that enable the preparation of financial statements in conformity with generally accepted accounting principals (GAAP).
   - The basis of accounting within governmental funds will be modified accrual.
   - The basis for accounting within all Enterprise and Internal Service Funds will be the accrual basis.

II. 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 Board, the County Manager, the Finance Director and the Assistant Finance Director. Monthly expenditure/expense reports will be provided to each director and department head for their functional area and 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.

III. The County 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 reports, as well as the accountability of assets.

IV. Departments and specifically the Information Technology Department shall consult with and seek input from the Finance Department concerning internal controls, integration, and reporting capabilities prior to the procurement or during the internal development of any system that will process and/or record financial transactions or data.

V. An annual audit will be performed by an independent certified accounting firm which will issue an opinion on the annual financial statements as required by the Local Government Budget and Fiscal Control Act.

VI. The County will solicit proposals from qualified independent certified public accounting firms for audit services. The principal factor in the audit procurement process will be the auditor's ability to perform a quality audit. The County will enter into a multiyear agreement with the selected firm for a period of four fiscal years. Firms are not barred from consecutive contract awards.

VII. The County will maintain a standing audit committee. The committee will oversee the independent audit of the County's financial statements, from the selection of the auditor to the resolution of any audit findings.

VIII. The Finance Department will conduct some form of internal audit procedures at least one time per year, specifically focusing upon cash receipts procedures.

IX. The County will prepare a CAFR. The CAFR will be prepared in compliance with established criteria to obtain the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting and will be submitted to that award program each year.

X. Full and complete disclosure will be provided in all regulatory reports, financial statements and debt offering statements.

XI. The County will use the CAFR as the disclosure document for meeting its obligation to provide certain annual financial information to the secondary debt market via various information repositories. The annual disclosure is a condition of certain debt covenants and contracts that are required by SEC Rule 15c2-12.

XII. The Finance Department will develop and maintain a Financial Procedures Manual as a central reference point and handbook for all financial, accounting and recording procedures.

XIII. The Information Technology Department 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.

Cash Management Policy

I. Receipts

- All aspects of cash receipts shall be subject to proper internal controls with standard controls documented and followed by revenue generating departments.
- The Finance Department shall prescribe internal control procedures for departments, which address adequate segregation of duties, physical security, daily processing and reconciliation, use of automated resources, and treatment of overpayments.
- Cash receipts will be collected as expediently as reasonably possible to provide secure handling of incoming cash and to move these moneys into interest bearing accounts and investments.
- All incoming funds will be deposited daily as required by State law.
- The Finance Director is responsible for conducting at least two random or risk based internal audits of cash receipting locations per fiscal year.
- Upon any suspicion of fraud, the department head shall timely notify the Finance Department for further investigation.
- Upon any suspicion of non-compliance with internal control directives, the department head shall timely notify the Finance Department for further investigation.

II. Cash Disbursements

- The County's objective is to retain monies for investment for the longest appropriate period of time.
- Disbursements will be made timely in advance of or on the agreed-upon contractual date of payment unless earlier payment provides greater economic benefit to the County.
- Inventories and supplies will be maintained at minimally appropriate levels for operations in order to increase cash availability for investments purposes.
- Dual signatures are required for County checks. Electronic signature of checks, drafts and purchase orders is approved.
- Electronic payments shall be utilized to the fullest extent possible where it is determined to be cost effective by the Finance Department. Such payments shall be integrated with financial systems and shall have proper data processing controls.

Utilities System Policy

I. The County's Utilities System Revenue Bonds are supported by rates and charges. Fund balances (net assets) are maintained to provide additional liquidity for the utility system. A seven year capital improvements plan will be maintained for the system and will be included as part of the system's budget for both operating and capital.
   a. Revenue bond coverage, as defined by the bonds' General Indenture, will be maintained at not less than 1.5 times.
   b. Utility system cash on hand at fiscal year-end will be maintained at not less than 2.0 times the following year's operating budget (budgetary operating expenditures defined as budgeted expenditures, including capital outlay in operating budget, less any budgeted operating reserve line item).
   c. Pay as you go capital improvement funding will be funded in a range of 35% to 50% of the system's capital improvement plan.
      i. This percentage is measured as an average over several years to recognize the effect upon the % of a major debt issuance.

II. All financial policies of the County, where relevant, apply to the Utility System: Operating Budget, Revenue, Expenditure, Reserve/Fund Balance, Assets & Liability Management, Capital Improvements, Debt, Debt Compliance, Accounting Auditing and Financial Reporting, Cash Management, Investments and Swaps.

III. Sections of the County's financial policies specific to the Utilities System are:
   a. Debt Policy, section IV: Utility System debt will normally have a term of 20 years or less. In no instance will the term of the Utility System debt exceed 30 years.
   b. Debt Policy, section VIII: The County's Utilities System Revenue Bonds are supported by rates and charges. Fund balances (net assets) are maintained to provide additional liquidity for the utility system. Revenue bond coverage, as defined by the bonds' General Indenture, will be maintained at not less than 1.5 times.
   c. Capital Improvements Policy, section I.b: The County will update and readopt annually a seven-year CIP for the Water Fund (Utility System) which projects capital needs and details the estimated costs, description and anticipated funding sources for capital projects.

Investment Policy

I. Policy

- It is the policy of the County to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the County and conforming to all State statutes governing the investment of idle funds.

II. Scope

- This investment policy applies to all financial assets of the County except authorized petty cash, trust funds administered by the Social Services Director, the Library Trust Fund, and debt proceeds, which are accounted for and invested separately from pooled cash. The County pools the cash resources of its various funds and participating component units into a single pool in order to maximize investment opportunities and returns. Each fund's and participating component unit's portion of total cash and investments is tracked by the financial accounting system.

III. Prudence

- The standard of prudence to be used by authorized staff shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- Authorized staff acting in accordance with 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.

IV. Authorized Staff

- G.S. 159-25(a)6 delegates management responsibility for the investment program to the Finance Director. The Finance Director will establish and maintain procedures for the operation of the investment program which are consistent with this policy. Such procedures will include delegation of authority to persons responsible for investment transactions. 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 will be responsible for all transactions undertaken and will establish and maintain a system of controls to regulate the activities of subordinates.
- In the absence of the Finance Director and those to which he or she has delegated investment authority, the County Manager or his or her designee is authorized to execute investment activities.

V. Objectives

- The County's objectives in managing the investment portfolio, in order of priority, are safety, liquidity, and yield.
- 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. To best mitigate against credit risk (the risk of loss due to the failure of the security issuer) diversification is required. To best mitigate against interest rate risk (the risk that changes in interest rates will adversely affect the market value of a security and that the security will have to be liquidated and the loss realized) the second objective, adequate liquidity, must be met.
- Liquidity
  - The investment portfolio shall remain sufficiently liquid to meet all operating and debt service cash requirements that may be reasonably anticipated. The portfolio will be structured so that securities mature concurrent with cash needs (static liquidity), with securities with an active secondary market (dynamic liquidity), and with deposits and investments in highly liquid money market and mutual fund accounts.
- 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.

VI. 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 to the County Manager any interests in financial institutions with which they conduct business material to them. They shall further disclose any personal financial or 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 individuals with whom business is conducted on behalf of the County.

VII. Authorized Financial Dealers and Financial Institutions

- The Finance Director will maintain a list of financial institutions that are authorized to provide investment services. Authorized financial institutions will be selected by credit worthiness and must maintain an office in the State of North Carolina. These may include “primary” dealers or regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).
- Any financial institutions and broker dealers that desire to become qualified to conduct investment transactions with the County must supply the Finance Director with the following:
  - Audited financial statements;
  - Proof of National Association of Securities Dealers certification;
  - Proof of State registration; and
  - Certification of having read the County’s investment policy.

- Any previously qualified financial institution that fails to comply or is unable to comply with the above items upon request will be removed from the list of qualified financial institutions.
- The Finance Director shall have discretion in determining the number of authorized financial institutions and may limit that number based upon the practicality of efficiently conducting the investment program. The Finance Director shall also have the discretion to add or remove authorized financial institutions based upon potential or past performance.

VIII. Internal Control

- The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires the use of estimates and judgments by management.

IX. Collateralization

- Collateralization is required for certificates of deposit. 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 County to the State Treasurer. The County will only maintain deposits with institutions using the Pooling Method of collateralization.

X. Delivery and Custody

- All investment security transactions entered into by the County shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian designated by the Finance Director and each transaction will be evidenced by safekeeping receipts and tickets.

XI. Authorized Investments

- The County is empowered by North Carolina G.S. 159-30(c) to invest in certain types of investments. The Board of Commissioners approves the use of the following investment types, the list of which is more restrictive than G.S. 159-30(c):
- Obligations of the United States or obligations fully guaranteed as to both principal and interest by the United States.
- Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the United States Postal Service.
- Obligations of the State of North Carolina.

- Bonds and notes of any North Carolina local government or public authority that is rated “AA” or better by at least two of the nationally recognized ratings services or that carries any “AAA insured” rating.
- Fully collateralized deposits at interest or certificates of deposit with any bank, savings and loan association or trust company that utilizes the Pooling Method of collateralization (section VIII.I).
- Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service, which rates the particular obligation.
- Banker’s acceptance of a commercial bank or its holding company provided that the bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.
- 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. 150-30(c) and that said fund is certified by the LGC. (The only such certified fund is the North Carolina Capital Management Trust.)
- Evidences of ownership of, or fractional undivided interest in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capacity of custodian (STRIPS).
- Guaranteed investment contracts utilizing repurchase agreements but only for the investment of debt proceeds which are to be collateralized at 105% and marked to market on a daily basis.
- Prohibited Forms of Authorized Investments
- The use of repurchase agreements in the normal investment portfolio (not debt proceeds) is prohibited.
- The use of collateralized mortgage obligations is prohibited.
- The use of any type of securities lending practices is prohibited.

XII. Diversification

- Investments will be diversified by security type and by institution.
- With the exception of United States treasury securities and the North Carolina Capital Management Trust, no more than 35% of the County’s total investment portfolio will be invested in a single security type or with a single financial institution.
- The total investment in certificates of deposit shall not exceed 25% of the County’s total investment portfolio and the investment in certificates of deposit with a single financial institution shall not exceed $3,000,000.
- The total investment in commercial paper shall not exceed 35% of the County’s total investment portfolio and the investment in commercial paper of a single issuer shall not exceed $3,000,000.
- The total investment in bankers’ acceptances shall not exceed 5% of the County’s total investment portfolio and the investment in bankers’ acceptances of a single issuer shall not exceed $2,000,000.

- The Finance Director is responsible for monitoring compliance with the above restrictions. If a violation occurs, the Finance Director shall report such to the County Manager and to the Board along with a plan to address the violation.

XIII. Maximum Maturities

- To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Beyond identified cash flow needs, investments will be purchased so that maturities are staggered.
- The following maturity limits are set for the County's investment portfolio:
- At least 60% of the investment portfolio will have maturities of no more than 3 years from the date of purchase.
- At least 80% of the investment portfolio will have maturities of no more than 5 years from the date of purchase.
- At least 92.5% of the investment portfolio will have maturities of no more than 10 years from the date of purchase.
- At least 97.5% of the investment portfolio will have maturities of no more than 15 years.
- No investments maturing more than 20 years from the date of purchase may be purchased.
- For purposes of this section, for any variable rate demand obligation, the purchase date is considered to be the last reset and remarketing date and the maturity date is considered to be the next reset and remarketing date.
- If any change is made to the County's policy for unreserved and undesignated fund balance in the General Fund (section II.E.2), then sections VIII.M.2.a-.e of this policy must be concurrently revised.

XIV. Selection of Securities

- The Finance Director or his or her designee will determine which investments shall be purchased and sold and the desired maturity date(s) that are in the best interest of the County. The selection of an investment will involve the evaluation of, but not limited to, the following factors: cash flow projections and requirements; current market conditions; and overall portfolio balance and makeup.

XV. Responses to Changes in Short Term Interest Rates

- The County will seek to employ the best and most appropriate strategy to respond to a declining short term interest rate environment. The strategy may include, but does not have to be limited to, purchases of callable "cushion" bonds, lengthening of maturities in the portfolio, and increases in the percentage of ownership of treasury notes relative to that of treasury bills.
- The County will seek to employ the best and most appropriate strategy to respond to an increasing short term interest rate environment. That strategy may include, but does not have to be limited to, purchases of "step-up" securities, shortening of maturities in the portfolio, the use of floating rate investments, and increases in the percentage of ownership of treasury bills relative to that of treasury notes.

XVI. Performance Standards

- The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will strive

to obtain a market average rate of return within the constraints of the County's investment risk profile and cash flow needs.
- The performance benchmarks for the performance of the portfolio will be rates of return on 90 day commercial paper and on three year treasury notes.

XVII. Active Trading of Securities
- It is the County's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal. However, if economic or market conditions change making it in the County's best interest to sell or to trade a security before maturity, that action may be taken.

XVIII. Pooled Cash and Allocation of Interest Income
- All moneys earned and collected from investments other than bond proceeds will be allocated monthly to the various participating funds and component units based upon the average cash balance of each fund and component unit as a percentage of the total pooled portfolio. Earnings on bond proceeds will be directly credited to the same proceeds.

XIX. Marking to Market
- A report of the market value of the portfolio will be generated at least semi-annually by the Finance Director. The Finance Director will use the reports to review the investment portfolio in terms of value and price volatility, as well as for compliance with GASB Statement #31.

XX. Software
- The County recognizes the significance of the size of its investment portfolio and of the requirements contained in this policy. The County will utilize investment software which enables efficient transaction processing and recording, sufficient portfolio monitoring and the ability to maintain reporting compliance with this policy.

XXI. Reporting
- The Finance Director will prepare a monthly investment report that will be submitted with the Board's monthly report package.
- The monthly investment report will include a listing of all investments and will show the investment number, the investment description, the purchase, call and maturity dates, the yields to call and to maturity, the weighted average yields to call and to maturity by investment type and in total, the coupon rate, the par value and the ending amortized value. The report will also include earnings information for the last twelve months with that information compared to the established benchmarks.
- The monthly investment report will include reporting on the status of diversification compliance.

XXII. Policy Considerations
- A maturity or diversification violation created by fluctuations in the size of the portfolio does not require corrective action. The violation may be cured through an increase in the portfolio size or the maturity of an investment.

Swap Policy

I. Definitions

- "*County*" means the County of Dare, North Carolina.
- "*County Manager*" means the person from time to time serving as the county manager of the County.
- "*Finance Director*" means the person from time to time serving as the responsible finance officer of the County.
- "*Swap Agreement*" shall mean a written contract entered into with an acceptable counterparty in connection with debt issued or to be issued by or behalf of the County in the form of a rate swap agreement, basis swap, forward rate agreement, interest rate option agreement, rate cap agreement, rate floor agreement, rate collar agreement or other similar agreement, including any option to enter into or terminate any of the foregoing or any combination of such agreements.

II. The Conditions Under Which Swap Agreements May Be Entered Into

- The County may use a Swap Agreement for the following purposes only:
  - ➢ To achieve significant savings as compared to a product available in the traditional cash market.
  - ➢ To enhance investment returns within prudent risk guidelines.
  - ➢ To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the County.
  - ➢ To incur variable rate exposure, such as selling interest rate caps or entering into a swap in which the County's payment obligation is floating rate.
  - ➢ To achieve more flexibility in meeting the County's overall financial objectives than can be achieved in conventional markets.
- The Board must receive an opinion acceptable to the market from a nationally recognized bond counsel law firm acceptable to the County Manager and to the Finance Director that the Swap Agreement is a legal, valid and binding obligation of the County and entering into the transaction complies with applicable law.
- The County will inform the Debt Management Section of the LGC of any potential Swap Agreement. The County will review the proposed Swap Agreement with the staff of the LGC and will obtain LGC staff approval, or if determined to be required by the LGC staff, obtain approval of the LGC prior to the execution of any Swap Agreement.
- The failure of the County to comply with any provision of this policy will not invalidate or impair any Swap Agreement.
- The County may not use a Swap Agreement for speculative purposes. Associated risks will be prudent risks that are appropriate for the County to assume.
- The County shall contract for the services of a Financial Advisor for every swap transaction contemplated.

III. Aspects of Risk Exposure Associated with Such Contracts

- Before entering into a Swap Agreement, the County shall evaluate all the risks inherent in the transaction. The evaluation shall be in written form and shall be presented to the governing Board. The risks to be evaluated should include counterparty risk, termination risk, collateral posting risk, rollover risk, basis risk, tax event risk and amortization risk.

- The County shall endeavor to diversify its exposure to counterparties. To that end, before entering into a transaction, it should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of notional amount, but rather how changes in interest rates would affect the County's exposure.

IV. Counterparty Selection Criteria

- The County may enter into a Swap Agreement if the counterparty has at least two long-term unsecured credit ratings in at least the double A category from Fitch, Moody's, or S&P and the counterparty has demonstrated experience in successfully executing Swap Agreements. The County may enter into a Swap Agreement if the counterparty has at least two long-term unsecured credit ratings in the single A category or better from Fitch, Moody's, or S&P only if the counterparty has demonstrated experience in successfully executing Swap Agreements and if (a) the counterparty either provides a guarantor or assigns the agreement to a party meeting the rating criteria in the preceding sentence, or (b) the counterparty collateralizes the Swap Agreement in accordance with the criteria set forth in this Policy and the transaction documents.
- If the ratings of the counterparty, or if secured, the entity unconditionally guaranteeing its payment obligations, fall below the A category at any time subsequent to the execution of the swap, then the obligations of the counterparty must be fully and continuously collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America and such collateral must be deposited with a financial institution serving as a custodial agent for the County.

V. Methods By Which A Swap Agreement Is To Be Procured

- *Negotiated Method.* The County may procure a Swap Agreement by a negotiated method under the following conditions:
- The Finance Director makes a determination that, due to the size and complexity of a particular swap, a negotiated transaction would result in the most favorable pricing and terms; or
- The Finance Director makes a determination that a proposed derivative embedded within a refunding debt issue meets the County's saving's target; and
- The County receives a certification from a financial institution or financial advisor that the terms and conditions of the Swap Agreement provide the County a fair market value as of the date of its execution in lights of the facts and circumstances.

- *Competitive Method.* The County may also procure a Swap Agreement by competitive bidding. The competitive bid may limit the number of firms solicited to no fewer than three. The County may determine which parties it will allow to participate in a competitive transaction. In situations in which the County would like to achieve diversification of counterparty exposure, the County may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid. The parameters for the bid must be disclosed in writing to all potential bidders.

VI. Long-Term Implications

- In evaluating a particular transaction involving the use of a Swap Agreement, the County shall review long-term implications associated with entering into the Swap Agreements, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.

VII. Swap Agreements To Be Reflected In The County's Financial Statements

- The County shall disclose and reflect the use of Swap Agreements in its financial statements in accordance with generally accepted accounting principles.

VIII. Management Review of Swaps

- A written annual management review of swap agreements shall be prepared by the Finance Director and submitted to the County Manager.
- Valuation of swap agreements shall be conducted semi-annually by the Finance Director and submitted to the County Manager.

IX. Termination Payments

- If the County enters into a swap agreement and incurs the risk of a potential swap termination payment, or if the County issues some form variable rate debt, the County will create a termination/hedge reserve within the General Fund, or for termination payment risk, the County may instead obtain a non-reimbursable insurance policy for swap termination payments from a 'AAA' or 'AA' rated monoline bond insurer.
- The County shall also seek to negotiate a "term-out" provision for any potential termination payment which will make the termination payment payable over a five year period.

Review and Revision

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