



County of Dare

North Carolina

Financial Policies

County of Dare, North Carolina Financial and Budgetary Policies

Table of Contents

<u>Page</u>	<u>Section</u>
3	Introduction
4	Operating Budget
4	Revenue Policy
6	Expenditure Policy
6	Reserve/Fund Balance
9	Asset-Liability Management
10	Capital Improvements
12	Debt
14	Debt Compliance
19	Accounting, Auditing and Financial Reporting
20	Electronic Transactions
20	Cash Management
21	Utilities System
22	Investment Policy
28	Swap Policy
31	Cost Allowability for Charges Against Federal Awards
32	Review and Revision

County of Dare, North Carolina Financial and Budgetary 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.

County of Dare, North Carolina

Financial and Budgetary Policies

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 prepared to include a current year budget and a second year, planned budget. The following year's budget process will then consist of updating the previous 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, per 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.
- 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. Investment Earnings – Investment earnings is subject to variability based upon changes in prevailing interest rates, which cannot be predicted with certainty. The revenue will

County of Dare, North Carolina Financial and Budgetary Policies

- be budgeted in a conservative manner 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 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 is the related department head. The grant manager is responsible for all grant monitoring, compliance and reporting. The grant manager will provide 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. The grant manager will comply with the Cost Allowability for Charges Against Federal Awards Policy section of this policy. The grant manager is responsible for compliance with all applicable sections of federal Uniform Guidance.
 - The grant manager for disaster recovery FEMA/NCEM grants is the Finance Director.
- VI. Appropriation of Fund Balance – Fund balance originally appropriated with adoption of the General Fund annual operating budget shall not exceed 5% of the prior fiscal year’s budgeted expenditures, unless done per Section II of the Reserve/Fund Balance section of this policy.
- VII. Budgetary Responsibilities – Revenue initiating departments shall develop initial budget estimates of applicable revenues. 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.

County of Dare, North Carolina

Financial and Budgetary Policies

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 the department and for the 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 comply with 2 CFR Part 200.305 of the Code of Federal Regulations regarding the timely distribution of Federal funds as it relates to payments made by the County for which Federal funds will be used and expended.
- 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 ("reserved by State statute").
- II. The County will maintain a General Fund unassigned fund balance that significantly exceeds the minimum of eight percent (8%) required by NC State Treasurer Fiscal Management. The percentage is to be determined by dividing the consolidated General Fund unassigned fund balance by actual current (same) year revenues of the General Fund (#10 General Fund only). The target goal of the County for the General Fund is a minimum unassigned fund balance of 25%. The annual calculation shall be disclosed in the Notes to the Financial Statements in the ACFR.
 - Purpose of Reserve: 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 or other disasters, and maintain the County's credit ratings.

**County of Dare, North Carolina
Financial and Budgetary Policies**

- Reserve Drawdown: The fund balance may be drawn down below the 25% target percentage for emergencies, including those of an economic nature, by Board action.
 - Reserve Replenishment: If the unassigned 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 an expenditure line item (“to increase fund balance”) of at least 25% of the last known difference between the target percentage level and the actual balance until the target level is met. In the event appropriating 25% is not economically feasible, the County will appropriate a lesser amount and shall reaffirm by Board resolution its commitment to fully replenish the fund balance over a stated longer period of time.
 - Reserved By State Statute: For purposes of the above section, the 25% unassigned fund balance calculation shall remove the fund balance effects of a FEMA/State accounts receivable in the Disaster Recovery Fund which creates a larger amount of reserved by State statute.
- III. Any General Fund unassigned fund balance that exceeds the target goal may be transferred for the following uses:
- to the Capital Investment Fund;
 - to the Disaster Recovery Fund;
 - to a Capital Projects Fund for a specific project;
 - to the Community Development Housing Fund;
 - to the Law Enforcement Special Separation Allowance Activity Fund;
 - to an irrevocable trust fund for retiree postemployment health benefits (OPEB) liability; or
 - to an irrevocable trust fund for the Law Enforcement Special Separation Allowance liability.
- IV. The County will appropriate within the General Fund annual budget a Contingency appropriation each fiscal year.
- V. The County shall maintain a Disaster Recovery Special Revenue Fund and the County shall strive to maintain a minimum total fund balance equal to 1% of the current year General Fund operating budget (#10 fund).
- VI. The County shall maintain a Capital Investment Fund, and a School Capital Investment Fund, that budgets and accounts for non-grant funded capital outlays, debt service, the County’s capital improvements plan, EMS helicopter major maintenance, major equipment replacements, roof replacements, and HVAC replacements.
- The Board shall budget an annual transfer of \$10,425,000 from the General Fund (#10) to the Capital Investment Fund (#11), which represents the net amount of capital and debt service funding during fiscal year 2019. The amount of the transfer may decrease due to an emergency or due to reduced capital funding needs. The following revenues are committed to the Capital Investment Fund: the land transfer tax and the transfer from the General Fund. The following revenues are committed to the School Capital Investment Fund: the Education Lottery and the restricted portions of article 40 and article 42 sales taxes.

County of Dare, North Carolina Financial and Budgetary Policies

- The County shall maintain a Capital Investment & Debt Affordability Model for both funds that projects the above revenues, capital expenditures, existing and future debt service, EMS helicopter major maintenance, roof replacements, and HVAC replacements.
 - The Debt Affordability Model will calculate annual coverage into the future with coverage defined as total ending fund balance, excluding the EMS helicopter reserve below, divided by annual debt service (actual and projected) for at least seven future years. The County will strive to maintain coverage levels of at least 0.50 times with a target of 1.00 times.
 - Any unspent budget for EMS helicopter major maintenance, will be reserved within the total fund balance of the Capital Investment Fund for that purpose up to a maximum of \$1 million, unless the County Manager determines otherwise.
 - All grant funded or partially grant funded capital shall be budgeted within the General (#10) or other fund as appropriate..
- VII. If the County enters into a swap agreement and incurs the risk of a potential swap termination payment, or if the County issues a 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 30

County of Dare, North Carolina

Financial and Budgetary Policies

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 unassigned 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.

County of Dare, North Carolina

Financial and Budgetary Policies

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 and will include all capital outlay items in the Capital Investment Fund.
- A feasibility, programming, or cost estimation study is eligible for inclusion in the CIP for a project for a future request. Such a study is encouraged in order to generate more 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 as 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 normally will be in a minimum 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 percentage of a debt issuance.

II. Capital Formation

- The County's one percent realty transfer tax is the primary revenue source for the Capital Investment Fund. The Capital Investment 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.
- Revenues restricted for school capital and school debt service are the primary sources for the School Capital Investment Fund.

County of Dare, North Carolina
Financial and Budgetary Policies

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.
- The Finance Department will have fixed asset records annually reviewed by each department. The Internal Auditor will annually audit a sample of department fixed asset records.

County of Dare, North Carolina

Financial and Budgetary Policies

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 or installment 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 not have a term to 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% of noncapital expenditures.
 - 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 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 and structure of refundings 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.

County of Dare, North Carolina Financial and Budgetary Policies

- X. The County will monitor the municipal bond market for opportunities to obtain interest rate savings by refunding by forward delivery, currently refunding or taxable 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.
- XV. The County will use the Annual Comprehensive Financial Report (the "ACFR") 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 Debtbook software or equivalent.

**County of Dare, North Carolina
Financial and Budgetary Policies**

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 meet 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 required, 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.
 - ii. When amounts are known, rebatable interest earnings will be recorded as an arbitrage liability and not as a County revenue.
 - c. Upon each five-year arbitrage payment date for each debt issue, the required arbitrage rebate payment shall be made to the IRS, if a liability exists.
 - 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 – the Finance Department will:
 - 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.

**County of Dare, North Carolina
Financial and Budgetary Policies**

- 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 and private activity rules.
- IV. Covenants
 - a. Annually document compliance with debt covenants by disclosures in the ACFR and certifications to Bond Trustees.
- 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 installment financings 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-financed 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:

**County of Dare, North Carolina
Financial and Budgetary Policies**

- 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 Activity
 - 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.
 - b. Every County department is responsible for reporting Private Activity uses of buildings to the Finance Department.
- 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 required for the incurrence of privately placed debt (direct debt) and the properly redacted debt documents, will be filed within 10 business days of the debt closing.
 - i. Requests for proposals for direct debt will require that a draft continuing disclosure notice be provided by the winning proposal with the debt documents.
 - d. Other material event notices as required, determined by the County Attorney, or by bond counsel shall be timely filed. Confirmation of each instance of continuing disclosure shall be filed with the LGC.

County of Dare, North Carolina Financial and Budgetary Policies

Policy for Pre-Audit Exemption on Electronic Obligations and for Disbursement Certification Exemption on Electronic Payments

On June 18, 2018 the County Board of Commissioners authorized the County of Dare to engage in electronic payments as defined by NCGS 159-28. As required by 20 NCAC 03 .0409 and 03 .0410, this policy establishes procedures for the pre-audit of obligations to be incurred by electronic payments and procedures for disbursing public funds by electronic transactions.

Procedures to Utilize Pre-Audit Certificate Exemption for Electronic Obligations

1. Purchasing Cards
 - a. Purchasing cards are administered through the purchasing card policy. That policy addresses transaction, daily, and monthly card limits as well as merchant category code control. The policy and training will be provided to the card holder at the time of issuance and by the card holder's department head.
 - b. All transactions utilizing a purchasing card as a form of payment must follow the purchase order policy for each transaction. Under that policy, a required purchase order is issued in the name of the vendor and will be liquidated upon payment of the related purchasing card amount to the purchasing card provider.
2. Fuel Cards
 - a. The Purchasing Agent will record annual encumbrances through creation of a purchase order during the first week of each fiscal year. Encumbrance amounts and account numbers used will be based upon the prior year's fuel usage and current year's budget for each account. The purchase order will be partially liquidated each month when payment is made to the fuel card vendor.
3. Contracts and Engagement Letters
 - a. All contracts and engagement letters creating an obligation will be pre-audited during processing through the contract management system.
4. Electronic Funds Transactions
 - a. No *obligations* are to be incurred by means of electronic funds transactions, including debit cards, gift cards (except as allowed by policy), ACH payments, ActivePay/ACI payments, or wire transfers.
5. Quarterly Statements
 - a. Each quarter, the Board of Commissioners will be provided a budget-to-actual statement that includes budgeted accounts, actual payments made, amounts encumbered including electronic obligations, and the amount of the budget that is unobligated for all major funds.

Procedures to Utilize Disbursement Certificate Exemption for Electronic Payments

1. Purchasing Cards
 - a. All required purchase orders will not be liquidated until payment of the related purchasing card amount is made to the purchasing card vendor. The disbursement certification exemption, if applicable, is per the following Electronic Funds Transactions section for the form of electronic payment used.
2. Fuel Cards
 - a. The purchase order will be partially liquidated each month when payment is made to the fuel card vendor. The disbursement certification exemption, if

County of Dare, North Carolina Financial and Budgetary Policies

applicable, is per the following Electronic Funds Transactions section for the form of electronic payment used.

3. Electronic Funds Transactions
 - a. All underlying transactions for payments made via bank draft, ACH, ActivePay/ACI, or wire transfer, except debt service, must have followed the purchase order policy for pre-audit certification, or the Purchasing Cards or Fuel Cards sections of this policy for pre-audit certification exemption, or have a pre-audited contract or engagement letter. For all transactions above:
 - i. The amount claimed is payable per the signed voucher certification that requests payment;
 - ii. The budget and accounting system will at all times have budget monitoring by line item functionality active, thus verifying an existing budget and budget sufficiency; and
 - iii. The Accounting Technician for accounts payable will notify the Assistant Finance Director or the Finance Director of amounts needed for each ACH or ActivePay/ACI run and cash sufficiency will be verified prior to execution.
 - b. Wire transfers are used for debt service payments which have been pre-audited via the original underlying contracts or bonds. For each debt service payment made by wire transfer:
 - i. Supporting documentation must include the debt service notice received from the NC State Treasurer's office which has been verified to the original debt documents;
 - ii. The journal entry entering the transaction into the budget and accounting system will be entered and approved prior to the wire transfer being performed. The budget and accounting system will at all times have budget monitoring by line item functionality active, thus verifying an existing budget and budget sufficiency; and
 - iii. Prior to the wire transfer being performed, the Finance Director, Assistant Finance Director, or the Finance Analyst will verify sufficient cash to cover the payment.

County of Dare, North Carolina Financial and Budgetary Policies

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 principles (GAAP).
- II. Financial systems will be maintained to enable the continuous monitoring of revenues and expenditures or expenses. 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, when recommended by the Board's Audit Committee, 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 internal audit procedures focusing on cash receipts procedures and purchasing cards transactions.
- IX. The County will prepare a ACFR. The ACFR 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 ACFR 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. All policies and procedures will be maintained and made available on the County's intranet site.

County of Dare, North Carolina

Financial and Budgetary Policies

Cash Management Policy

- I. Interfund Loans that result from fiscal year-end cash balances are authorized in the policy and in the annual budget ordinance.
- II. 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 Internal Auditor is responsible for conducting random or risk based internal audits of cash receipting locations.
 - 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.
- III. 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 internal controls.

County of Dare, North Carolina

Financial and Budgetary Policies

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 not have a term to 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.

County of Dare, North Carolina

Financial and Budgetary Policies

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.

County of Dare, North Carolina Financial and Budgetary Policies

- 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.

County of Dare, North Carolina

Financial and Budgetary Policies

- 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.

County of Dare, North Carolina Financial and Budgetary Policies

- 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.
- 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 – A1, P1, F1 or better..
- 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 fund for local government investment per G.S. 159-30(c)(8) and (10).
- 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:
 - Repurchase agreements in the normal investment portfolio (not debt proceeds).
 - Collateralized mortgage obligations.
 - Any type of securities lending practice.

XII. Diversification

- All dollar and percentage limits apply to par values.
- Investments will be diversified by security type and by institution.
- With the exception of United States treasury securities, the North Carolina Capital Management Trust, and the North Carolina Investment Pool, 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 20% 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. The investment in commercial paper of a single issuer shall not exceed \$3,000,000 unless the issuer carries two plus ratings (A1+, P1, F1+), then the investment shall not exceed \$5,000,000.

County of Dare, North Carolina Financial and Budgetary Policies

- 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 \$1,000,000.
- 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.
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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

County of Dare, North Carolina Financial and Budgetary Policies

- 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
- The market value of the portfolio will be determined monthly by the Finance Director. .
- 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 and distribute to the Manager and the Board a monthly investment report.
 - 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 in error or 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.

County of Dare, North Carolina

Financial and Budgetary Policies

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

County of Dare, North Carolina Financial and Budgetary Policies

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

County of Dare, North Carolina Financial and Budgetary Policies

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.

County of Dare, North Carolina Financial and Budgetary Policies

Cost Allowability for Charges Against Federal Awards Policy

- I. All costs incurred under a Federal grant award shall be subject to the cost allowability standards articulated in OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- II. Prior to entry in the financial records, the grant manager shall determine the nature of the expense and evaluate:
 - *Allowability* - meets the general requirements established in 2 CFR § 200.403(a) through §200.403(g). Departments will maintain a system of internal controls over Federal expenditures to provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the above referenced cost principles. Costs will meet the following general criteria:
 - Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
 - Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the County.
 - Be accorded consistent treatment.
 - Be determined in accordance with generally accepted accounting principles.
 - Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
 - Be adequately documented.
 - *Selected Items of Costs* - is consistent with one of the allowability factors for selected items of costs articulated in 2 CFR § 200.420 through § 200.475.
 - *Grant Budget* - is consistent with the allowable expenses provided for in the grant agreement.
- III. These procedures will be employed regardless of whether the Department classifies the expense as direct or indirect (F&A) cost.
- IV. If deemed allowable, the grant manager shall code the expense in accordance with the account code established for the Federal grant and have the Finance Department record the amount in the financial records.
- V. If the grant manager cannot establish the allowability of an expense, consultation with the Finance Director shall be required to make the determination before any cost is entered in the financial records. If unable to be resolved by the Finance Director, the grant manager shall seek clarification with the Federal awarding agency or pass-through agency.
- VI. If deemed ineligible for reimbursement under the Federal award, the Finance Department will record the item as an "Ineligible Cost".

**County of Dare, North Carolina
Financial and Budgetary Policies**

Review and Revision

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