



## CITY OF ASHEVILLE Financial Policy

Subject: Financial Policies

Effective Date: ~~October 9, 2012~~ November 13, 2012

Issued and maintained by: Finance & Management Services Department

Adopted by City Council:

The City of Asheville financial policies establish general guidelines for the fiscal management of the City. These guidelines, influenced by the North Carolina Local Government Budget and Fiscal Control Act and sound financial principles, provide the framework for budgetary and fiscal planning. Operating independently of changing circumstances and conditions, these policies assist the decision-making processes of the City Council and city administration.

### **A. Operating Budget Policy**

1. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriations shall be limited to non-recurring expenditures.
2. Debt proceeds or non-recurring revenues will not be used to finance recurring operating and recurring capital expenditures.
3. The City will integrate performance measures and productivity indicators with the annual budget.
4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
5. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.

### **B. Reserves**

1. The City will maintain an undesignated fund balance equal to 15% of the General Fund operating budget, with any amount in excess of 15% being credited to a capital reserve account. This transfer shall be made upon completion of the annual financial audit. The City Council may appropriate this transfer through an amendment to the subsequent year's Budget Ordinance.
2. For all other operating funds, the City shall seek to maintain a minimum fund balance as follows:

2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," as well as the City's other adopted Master Plans, to ensure that the capital items requested meet the future growth needs and long-term vision for the City.
3. The City shall appropriate all funds for Capital Projects with a Capital Projects ordinance in accordance with State statutes.
4. Operating expenses for all capital projects will be estimated and accounted for in the Capital Improvements Program and incorporated into the annual operating budget.
5. Capital expenditures included in the CIP as a project will cost at least \$50,000 and have a useful life of at least five years. Equipment purchases are considered operating expenses and will not be included in the CIP.
6. Capital facilities to be financed with bond-indebtedness must adhere to the debt policies of the City including maintenance of adopted debt ratios.

**F. Accounting Policy**

1. The City will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act.
2. Full disclosure will be provided in the financial statements and bond representations.
3. Financial systems will be maintained to monitor expenditures and revenues on a monthly basis.
4. All revenue collections will be consolidated under the Director of Finance and be audited at least annually.
5. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

**G. Audit Policy**

1. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required. The City will prepare a Comprehensive Annual Financial Report that will be submitted to the Local Government Commission each year according to the commission's stated deadlines.
2. When obtaining the services of independent auditors, the City of Asheville shall enter into multiyear agreements of at least five years in duration through a series of single-year contracts as consistent with North Carolina State law. The City shall undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. It is the City of Asheville's policy that the independent auditor be replaced at the end of the five-year engagement to enhance auditor independence unless lack of competition among audit firms fully qualified to perform public-sector audits make mandatory

employer is accepting in the self-funded plan which, if claims exceeded the aggregate potential liability funded from current rate resources, would be paid from reserves.

**b. Health Fund Reserve Requirement**

The health fund shall maintain reserves designed to offset normal variances in claims costs from year to year, unforeseen catastrophic claims beyond any reinsurance, larger than expected medical inflation trends, incurred but not reported claims liability and the impact of future health care legislative mandates.

The health fund reserve amount shall be calculated as the sum of the following:

1. 100% of the incurred but not reported claims liability with the lag factor based on the prior 12-months average, and
2. 100% of reported and not yet paid claims computed as two weeks of annual claims benefit costs, and
3. 30% of the aggregate of 1 and 2 above

Should the health fund fail to meet the required reserve level, the amount needed to restore the fund to the required reserve level shall be funded in subsequent years' rate structure and recovered over a period of not more than three years.

Should the health fund exceed the required reserve level, the amount in excess of the required reserve level shall be credited to the subsequent year's employer health care contribution.

**HJ. Debt Management**

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general government operating revenue.
4. Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's Water Resources Utility will maintain its financial condition so as to maintain a AA bond rating.
7. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.