



NET POSITION POLICY

I. INTRODUCTION:

The purpose of this Net Position Policy (“Policy”) is to provide written guidelines for the establishment of parameters for the foundation, maintenance, accrual, and utilization of account balances. Adherence to Net Position policy asserts the priority of sound financial position and commitment to protect and strengthen underlying credit position and rating. The Policy improves the quality of decisions made by governing boards and enhances operational efficiency. The City of Crossville, Tennessee recognizes the development and revision of this Policy is fundamental to the efficient operations and management of the City.

The Policy should be utilized with the annual operating budget, capital expenditures budget and capital improvement plan. It is the intent of the City that operational, financial, and credit initiatives and policies represent to the tax and rate payors, credit rating agencies, and capital markets that the City is well managed and structured to meet financial and economic challenges and opportunities which arise in the due course of business.

II. SCOPE, INTENT, AND ADMINISTRATION OF NET POSITION POLICY:

The scope of this Policy shall apply to all cash accounts of the City. Certified public accountants employ the term Net Position to describe the difference between the total of assets and deferred inflows of resources and the total of liabilities and deferred outflows. Enterprise funds are funds that account for activities that provide goods or services to the public for a fee that is meant to make the entity self-sustaining. Working capital is defined as current assets less current liabilities. The City deems it essential to maintain strong operating margins and working capital balances to meet the following objectives:

The intent of this Policy is to assist management and staff of the City understand 1) the need to provide for strong levels of unrestricted/undesignated Net Position, working capital, and cash balances; 2) credit rating agencies consider strength of unrestricted Net Position and cash balances as a key determinate affecting the underlying credit rating of the City; and 3) importance of unrestricted Net Position balances to ensure financial stability.

III. PURPOSE AND OBJECTIVE OF NET POSITION POLICY:

Net Position policy provides for written guidelines intended to maintain sufficient balances to provide for financial flexibility to meet the challenges, or opportunities, associated

with changing economic, operational, or financial environments. The Net Position Policy is instituted as a foundational platform of the City to provide basis for long term operational and financial planning.

To maximize total business efficiency, it is essential for this Policy to be utilized in conjunction with the annual operating plan and budget, capital expenditures budget, capital improvement plans and policies, debt management policy, and investment policies of the City. In these boundaries Net Position is recognized as the product of multiple revenue sources and expenditures outflows. The objectives of this Policy are to:

- Establish Net Position as the product of total operational management strategy.
- Strengthen financial position and underlying credit ratings.
- Establish methodologies designed to ensure the lowest cost of capital.
- Establish methodologies to ensure financial strength during periods of emergent or contingent conditions.
- Incorporate budgetary discipline providing for maximum financial flexibility.
- Incorporate financial structures that provide for maximum financial flexibility.
- Eliminate or limit exposure to economic or business cycle risk.
- Limit exposure to timing of receipts and expenditures risk.
- Provide clear objectives for issuer governance, management, and staff officials.
- Provide for alignment of day-to-day management decisions with stated policies.
- Establish methodologies to accommodate non-recurring and/or one-time receipts or expenditures.

IV. EXCEPTIONS TO NET POSITION POLICY:

Exceptions to the policy shall be approved by the City Council.

V. PUBLIC TRANSPARENCY:

It is the policy of the City to provide for transparency of action of operations to tax and rate payers, customers, investors, and public trust. The City shall comply with all legal disclosure requirements of State and Federal Agencies. The City shall comply with all legal disclosure requirements associated with the debt or investments of the City. The City may from time to time make voluntary disclosures of information deemed to be of public interest and importance that is not mandated by any covenant, State, or Federal Agency requirements.

VI. CONFLICTS OF INTEREST:

It is the policy of the City that firms seeking to conduct business shall not be permitted to engage in any activity where any actual or potential conflict of interest to those of the City may exist.

VII. CREDIT RATINGS:

Access to the capital markets at reasonable interest rates and credit terms is fundamental to the efficient operations of the City. City debt management policy is directed to achieve the highest possible underlying credit ratings. Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service represent the nation's three leading providers of public finance credit ratings. Underlying and issue-based debt ratings are released by the

agencies upon receipt of application by the Issuer. The City presently maintains an “AA-Stable” underlying credit rating as issued by Standard & Poor’s Corporation.

The City Manager, City Clerk, and/or Finance Director, assisted by the City’s Municipal Advisor, will be responsible for maintaining relationships and communicating with the rating agencies. Annual financial statements, continuing disclosure submissions, and material events notices will be provided to the Municipal Securities Rulemaking Board EMMA System (EMMA), rating agencies and open lines of communication will be continued by the City. In the event substantial, profound changes occur within the status quo finances of the City, appropriate communication will be provided and disclosed through the EMMA system as is legally required.

The City shall actively engage in forecasting activities designed to provide for prudent and conservative estimates to assist in the establishment of revenue and expenditure structures and levels to maintain or improve the existing underlying credit rating(s). The City shall provide for the following with respect to forecast revenues and expenditures:

FORECASTING REVENUES:

- The City will investigate, and implement, any new and expanded revenue sources that can be legitimately developed within the context of the City mission and purpose.
- The City will maintain aggressive policies and practices with respect to revenue collections.
- Historic and current revenue trends will be used as guidance in determining yearly budgeted revenue estimates.
- In combination with each budget cycle, the City will regularly review and analyze tax, rate and fee structures to ensure cost of service coverage.

FORECASTING EXPENDITURES:

- The City will develop, investigate, and implement new approaches to reduce the cost of services provided to City tax payors and users and customers of enterprise entities and systems.
- The City will maintain aggressive policies with respect to reduction of expenditures to lower cost to tax payors and customers.
- Historic and current expenditure trends will be used as guidance in determining yearly budgeted expenditure estimates.
- The City will budget forecast expenditures to include all non-cash expenditures such as depreciation.

VIII. CITY ACCOUNTS:

The Net Position of the City General and Enterprise Funds will consist of Restricted Earnings; Dedicated Earnings; Unrestricted/Undesignated Earnings; and Financial/Rate Stabilization Accounts.

- A. **Restricted Earnings:** consist of earnings and deposits that are set aside by the Board of Commissioners for specific purposes.
- B. **Dedicated Earnings:** consist of funds that have been internally earmarked to be deposited in specific accounts for various purposes but are yet to be contractually obligated. (i.e. 5-year capital expenditure budget, 20-year capital improvement plan, other).

- C. **Unrestricted/Undesignated Earnings:** consists of earnings and deposits which are not restricted or dedicated and may be utilized for any legal purpose and to provide for stabilization of rates during times of variable economic conditions. It is a goal of the City to attain a balance of unrestricted/undesignated Net Position at a level of 365 days of annual budgeted operating expenditures.

The City shall fully comply with all local, state, and federal statutes and laws. The City undertakes internal due diligence practices designed to locate potentially problematic areas and provide corrective responses. The City shall continue to be proactive in its efforts to comply with the law and disclose to appropriate agencies instances where non-compliance shall exist. To the best of its knowledge the City is in full compliance with all local, state, and federal statutes and laws.

IX. MARKET AND INVESTOR RELATIONS:

The Securities and Exchange Commission has issued guidance pertaining to the need for issuers of municipal securities to disclose financial statements and material events notices in accordance with the law. The City encourages the scrutiny of the market, credit rating agencies, and prioritizes the importance of good relations with the citizens and institutions that have invested in its debt obligations. The City shall strive to achieve the highest standards of professionalism in the timely reporting of information to comply with continuing disclosure agreements and material events notices and continue to assist market professionals and investors to obtain requested information.

X. ANNUAL REVIEW OF NET POSITION POLICY:

The City will review this policy annually and adopt amendments or modifications designed to achieve the objectives stated herein and to fundamentally strengthen underlying operational, financial, or credit position.

ADOPTED AND APPROVED, THIS ___TH DAY OF _____, 2024

Mayor

Council member

Council member

Council member

Council member

ATTEST:

City Clerk