RESOLUTION NUMBER 3-2012

A RESOLUTION ADOPTING THE CITY
OF GREER FINANCIAL POLICIES AND
PROCEDURES

WHEREAS, Council finds it necessary to adopt Financial Policies and Procedures to
provide the employees a detailed and comprehensive guide to the policies of the City of Greer
with regard to finance. The Policies and Procedures will assure compliance with Federal, State
and Local requirements, and

WHEREAS, Council finds it beneficial to provide employees with a detailed and
comprehensive guide to the finance policies of the City of Greer that are relative to their
employment with the City.

NOW, THEREFORE, BE IT RESOLVED the City Council of the City of Greer
hereby:

1. Adopts the City of Greer Financial Policies and Procedures

PASSED, ADOPTED and APPROVED by the Council of the City of Greer this 10th day of
April, 2012.

CITY OF GREER, SOUTH CAROLINA

Richard W. Danner, Mayor

ATTEST:

Tammela Duncan, Municipal Clerk

Edward Driggers, City Administrator
City of Greer
Financial Policies

Purpose

Primary among the responsibilities of the City of Greer, South Carolina, to its citizens is the care of public funds and wise management of the City's finances while providing for the adequate funding of the services desired by its citizens and the maintenance of public facilities. These financial management policies, designed to ensure the fiscal stability of the City of Greer, should guide the development and administration of the annual operating and capital budgets. These financial policies address areas of financial concern for the City and administrative controls for the various operating departments of the City.

INTERNAL CONTROL POLICY

The City of Greer establishes these standards and procedures for the design and operation of the system of internal controls in order to safeguard the City's assets. This policy applies to all assets whether they are monetary or physical.

Definitions

1. Internal Control

   Consists of all steps taken by the organization to:

   A. protect its resources against waste, fraud and inefficiency;
   B. ensure accuracy and reliability in accounting data and financial reporting;
   C. secure compliance with the policies of the organization as well as compliance with external local, state and federal laws and regulations.

2. Control Environment

   The internal control environment tone is set by its leaders. Supervisory personnel with the City are expected to exhibit integrity, ethical conduct and competence.

3. Risk Assessment

   Management should identify, analyze and manage risks related to the City's objectives. All processes should be evaluated for inherent risks and potential fraud, whether unintentional or through intentional error. The process of identifying and analyzing risk is a continual process and controls modified as changes occur in the operating environment. Mechanisms are needed to identify and react to changing conditions.

4. Control Activities

   Management directives are communicated through written policies and procedures. A policy establishes what should be done and a procedure details how it should be done.
5. Monitoring

Management should assess the effectiveness of its policies and procedures on a regular basis.

6. Control Deficiency

This condition exists when the internal control design does not allow management to detect or prevent misstatement on a timely basis. Such control deficiencies may be further classified as either "significant" or "material." A significant deficiency is a control deficiency that adversely affects the municipality's ability to initiate, authorize, record, process, or report financial data in accordance with GAAP. A material weakness is a significant deficiency that results in the likelihood that a material misstatement of the financial statements will not be prevented or detected. The difference between the control deficiency classes, significant deficiency and a material weakness is the likelihood and magnitude of the misstatement that could potentially occur.

7. Fraud

Deception intended to result in financial or personal gain can hinder and sometimes cripple an organization from meeting its objectives. Weak internal controls facilitate fraud by providing opportunity. Financial stress, addiction, dissatisfaction with work environment, and pathologies are some factors that can motivate an employee to commit a fraudulent act against his employer. Fraud is not only costly monetarily but undermines confidence in the organization.

Responsibilities

1. City Council

   A. Sets the standards for the control environment;
   B. Ultimate accountability for internal controls and risk management.

2. City Administrator

   A. Supports the City’s control and risk management activities;
   B. Responsible for the effectiveness of internal controls;
   C. Approves policies and procedures and conducts periodic reviews;
   D. Reports to City Council breaches detected in the internal control system.

3. Finance Director

   A. Establishes, executes and monitors the adequacy and effectiveness of internal controls and makes recommendations;
   B. Monitors financial operations and reporting;
   C. Ensures that department heads and supervisors understand the internal control framework as it relates to their department;
   D. Challenges and validates management internal control assertions;
   E. Reports to City Administrator breaches detected in the system.
4. Department Heads and/or Supervisors

A. Accountable for the operations of their respective departments;
B. Responsible for communicating expectations and ensuring that employees understand the internal control framework as it relates to their position;
C. Responsible for the application of internal controls under their direct supervision;
D. Periodically assess the risks and recommend, develop and implement action plans for improvements to the internal control system in their department.

5. Employees

A. Responsible for performing duties in accordance to the policy and procedure set for their position;
B. Communication of any observed breaches in policy and procedure.

Elements of Internal Control

1. Policies and Procedures

Management is responsible for the design, development, implementation, and maintenance of an effective system of internal controls within their respective areas of responsibility. Critical processes should be identified and objectives established. Written policies and procedures should include documentation of how transactions and events are to be processed. All policies and procedures will be reviewed and approved by the City Administrator.

2. Control of Assets

A. Access to assets whether monetary or physical should be restricted to personnel in accordance with management’s authorization.
B. The Finance Director is responsible for managing and safeguarding all physical assets in the areas of land, buildings, machinery and equipment, and infrastructure. Acquisition and disposition procedures are outlined in the Capital Asset Policy of the City. Fixed assets, with the exception of land, buildings and infrastructure, valued at $15,000 and above are recorded in the fixed asset software system. Land, buildings and infrastructure valued at $25,000 and above are recorded.
C. Periodically the Finance Department conducts an inventory of all fixed assets. Discrepancies are investigated and adjusted. The inventory serves two purposes; to ensure the accuracy of fixed asset information reported for the annual financial report and for insurance purposes.
D. Critical software systems are protected by passwords. All users of the accounting software of the City are given limited access rights by the Finance Director. Rights are limited to areas needed to perform job duties.
E. Daily backups are made of the critical operating systems by tape backup and SAN snapshots. In addition, an off-site, third party contractor records this information each night.
F. The City utilizes digital printing for disbursement checks. The check stock is completely blank. The digital printing places the check imprint and signatures on the check stock. Only authorized personnel are allowed to release disbursement checks and must be reviewed by at least two authorized personnel prior to release.
G. Cash receipts received through the mail should be safeguarded to ensure all payments received in the mail have been properly recorded. The Finance Clerks are designated to sort and open the mail each day and record each check. The Accounting Supervisor reviews each receipt daily to ensure accuracy and completeness. Checks are to be endorsed “for deposit only” immediately upon receipt.

H. Deposits will be made daily. All receipts will be locked with restricted access between bank deposits.

I. All employees authorized to handle money, authorize disbursements, or sign checks are bonded. All other employees are covered by the City’s crime and fidelity insurance policy.

3. Transaction Documentation and Authorization

A. Transactions are recorded as necessary to maintain accountability for City assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles.

B. All transactions must be supported by appropriate documentation. The documentation must be complete, accurate and provide for tracing a transaction or event from the source documents, while it is in process, through its completion. The documentation should be readily available for examination.

4. Receipts

A. A computer generated receipt should be issued for all revenue transactions with the below exceptions for hand-written receipts. These receipts will be issued from a pre-numbered receipt book assigned by the Finance Department.
   1) Revenue collected outside the normal business hours and/or office by the Parks and Recreation Department. These include Program revenues, entrance fees, etc. which could be collected after hours and/or at another site. The process is documented and maintained with the Parks and Recreation Policies.
   2) Revenue collected at night and on weekends by Municipal Court personnel. This process is documented and maintained with the Municipal Court Policies.

B. All funds’ cash accounts and receivables are reconciled monthly.

C. All voids or adjustments must be approved by the Finance Director.

D. Bank Statements should be reconciled monthly by personnel who generally have no responsibility for handling cash to validate cash balances and reconciliations approved by the Finance Director. General ledger accounts should be reviewed and/or reconciled monthly as well. The Finance Department will provide budget to actual reports on a monthly basis to management and City Council. Management should review the reports for discrepancies.

E. Investment accounts will be reconciled monthly by the Accounting Supervisor and the reconciliations will be approved by the Finance Director. The Finance Director has authority to wire funds into and out of the City’s cash and investments accounts.

5. Disbursements

A. Purchases will be performed in accordance with the City’s Purchasing Ordinance.
B. All disbursements other than petty cash must be made by check, ACH or wire transfer.

C. Checks will be printed and always used in sequence. Any discrepancies must be investigated, explained, and recorded.

D. Signing of blank checks is strictly prohibited.

E. Signature stamps may not be used to sign checks.

F. Dual signatures are required for all checks. Generally, the Mayor, City Administrator, City Clerk and Finance Director are authorized check signers. In cases of Agency funds, the Department Director responsible for the fund will be added as an additional authorized signer.

G. Any voided/spoiled checks must be marked “Void”, the signature portion removed and the voided check retained and filed until completion of the current year’s audit.

H. An invoice with proper documentation and authorization is required for disbursement.

6. Petty Cash

A. Petty Cash funds are used to make small disbursements and to make change available for cash payments when necessary.

B. All vouchers are to be signed by the Departmental Clerk issuing the petty cash disbursement and signed by the employee receiving the funds.

C. All vouchers should be approved by the Finance Director.

D. Petty cash funds disbursed will be reimbursed periodically by issuance of an accounts payable disbursement approved by the Accounting Supervisor and Finance Director.

E. Petty cash funds will be verified and reconciled periodically by the Accounting Supervisor and Finance Director.

7. Investments

A. All investments must meet the SC State Statutes regarding the investment of public funds.

B. All investments must meet the requirements under the Investment Policy of the City of Greer.

C. All investments must be made in the name of the City.

D. Investment transactions and transfers are made by the Finance Director under the authority granted in the Investment Policy of the City.

E. All transactions are subject to review and reconciliation by the Accounting Supervisor during the month-end close and while performing the monthly bank account reconciliations to the General Ledger.

8. Payroll

A. The payroll system should maintain safeguards that ensure all payroll expenditures are properly recorded and paid timely. Additional safeguards will ensure that all transactions are accurate and complete.

B. The Payroll Coordinator shall ensure that all pay calculations are accurate and paid to actual employees.

C. The Finance Director will monitor payrolls so that employees are not overpaid nor is pay inflated nor are employees paid for work not done.
D. All salary increases must be properly authorized.
E. All payroll expenditures will be allocated to the correct fund and line item.
F. All payroll expenditures will be charged to the correct time period.
G. All payroll documentation including time sheets and overtime are properly approved by the Department Supervisor prior to payroll preparation.
H. All payroll and personnel records will be secure with access limited only to authorized persons.
I. There will be segregation of incompatible duties for employees involved in the payroll process.
J. The Payroll Coordinator will compare time sheets to the payroll pre list after hours are entered from the time and attendance system. The pre list must be approved by the Finance Director before the payroll is submitted for direct deposit.

9. Review and Evaluation of Internal Controls

A. Management has the responsibility to review and measure the effectiveness of the controls established for the City. Policies and procedures will be reviewed on a periodic basis to evaluate effectiveness.
B. Management has the responsibility to make recommendations for improvements in internal control.
C. Management is responsible for responding to and implementing required changes to the internal control system as a result of findings issued by the audit firm in conjunction with the annual financial audit of the City.

FUND BALANCE POLICY

The City of Greer believes that sound financial management principles require that sufficient funds be maintained by the City to provide a stable financial base at all times. Accordingly, the City will maintain a General Fund Balance sufficient to fund the cash flows of the City, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for all existing encumbrances, and to minimize the potential of short term tax anticipation borrowing.

The purpose of establishing a policy on the unreserved fund balance in the General Fund is to provide a guideline for budgeting decisions and to insure that adequate reserves are established to fund operations by providing sufficient working capital. In addition, the level of the unreserved General Fund balance is part of our credit and rating agencies’ evaluation of the City. A strong unreserved fund balance helps maintain a favorable credit rating with these agencies.

Determining Factors

To determine an appropriate fund balance, several factors must be considered. These factors include the timing of revenue collections, the local and national economic conditions, restrictions on tax millage increases, the size of our government, and the degree of protection desired to mitigate current and future financial risks. Current property tax collections are not substantially received until the seventh month of the fiscal year. Business License revenue, which is a significant portion of General Fund revenues, is dependent on the economic environment, and not received until after the tenth month of the fiscal year. During the 2007 South Carolina State
Legislative Session, the General Assembly placed a restriction on municipal governments related to the amount of an increase that can be applied to the tax millage. This allowable increase is based on an increase in CPI and estimated population changes. The possibility exists for no tax millage increase to be available some years. Further, a smaller government will require a higher unreserved fund balance due to the lack of diversification and high volatility of revenues. After considering all of the above factors, it is the policy of the City to maintain an unreserved General Fund balance that is higher than the levels recommended by the Government Finance Officers Association.

Policy

To maintain and improve upon the City’s credit rating and to be able to meet the City’s seasonal cash flow needs, the budget shall provide for a minimum Undesignated General Fund Balance ("Fund Balance") of 30% of the most recent General Fund Budget, approved annually. Additionally, the City maintains a Fund Balance target of 35%. The Fund Balance shall be exclusive of all other reserves obligated by the City.

Should the anticipated year-end Fund Balance be projected to fall below 30% of the most recently approved General Fund Budget, the Administrator shall prepare and submit a plan for expenditure reductions and/or revenue increases to the City Council.

If, at the end of the fiscal year, the Fund Balance falls below 30%, then the City Administrator shall prepare and submit a plan to City Council to rebuild the fund balance over an appropriate period.

In the event the Fund Balance is above 35%, then the City Administrator shall prepare and submit a plan to City Council to expend the excess above 35%. It is preferable that any excess be expended on one-time, non-recurring expenditures. However, City Council may approve any expenditures as deemed necessary. Some possible uses are listed below:

1. Capital expenditures which do not increase ongoing costs to the City;
2. Other one-time expenditures; and
3. Ongoing or new City services or programs, as approved by City Council.

Monitoring and Reporting

The Director of Finance shall annually prepare a report documenting the status of the Fund Balance in accordance with this policy. This report shall be presented to the City Administrator and City Council during the development of the annual budget, and will disclose estimated fiscal year-end Fund Balance and the acceptable levels of Fund Balance, in accordance with this policy, based on the proposed budget. City Council should use this information to assist in the passage of the annual budget.

CONTINGENCY POLICY

To help maintain services during short periods of economic decline and meet emergency conditions, in addition to the Fund Balance, the City of Greer intends to establish a Contingency Fund when it is prudent and financially feasible to do so. The Contingency Fund will be funded through the City’s General Fund budget and will provide for a contingency equivalent to 1% of estimated annual operating expenditures. The contingency will also be exclusive of all reserves not anticipated to be readily available for use in emergencies. The contingency will be established to
provide for nonrecurring unanticipated expenditures, or to meet small increases in service delivery costs.

Contingencies should be planned to avoid large tax rate increases from one year to the next. Where correction of a Fund Balance deficit causes the contingency to fall below 1% of operating expenditures, the City Administrator shall prepare and submit a plan to City Council for correction over an appropriate period.

**SOURCES OF REVENUE POLICY**

The City will strive to maintain a diversified and stable revenue system to minimize the impact of fluctuations in any single revenue source and ensure its ability to provide ongoing services to its citizens. City management will strive to create a balance in the sources of revenue to alleviate reliance on any one source. New sources of revenue will be sought periodically to help maintain this balance and to replace declining revenues.

Restricted revenues shall only be used for the purpose intended and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated.

All fees established by the City of Greer will be reviewed periodically so that necessary adjustments may be made to reflect changes in associated costs. A listing of the City’s fees for all departments is maintained by the Municipal Clerk.

The City will aggressively pursue all grant opportunities. Before accepting any grant, the City will consider the current and future implications of both accepting and rejecting the awarded grant funds.

**DEBT MANAGEMENT POLICY**

The City of Greer issues debt to provide for the needs of its citizens, whether it is to maintain its current infrastructure, upgrade equipment as necessary or to provide for growth imposed as a result of economic conditions. This policy provides objectives and guidelines for the proper use and issuance of debt.

The City’s debt policy is designed to:

1. Establish parameters for issuing debt;
2. Provide guidance to management and council for decisions related to debt obligations;
3. Provide guidance for continued monitoring and evaluation of current debt;
4. Ensure compliance and conformity in reporting for debt issues.

The City’s objectives related to debt are to:

1. Meet the needs of its citizens and customers;
2. Obtain other sources of funds when possible such as grants or contributions;
3. Obtain the lowest possible interest rates in financing;
4. Maintain debt requirements for debt limitation;
5. Maintain a high credit rating.
Issuance of Debt

The City may enter into debt obligations to finance the construction, upgrade or acquisition of infrastructure or to purchase capital equipment. Additionally, the City may refinance current debt obligations to obtain better interest rates. The issuance of debt to fund current operating deficits is not permitted. The proceeds of debt obligations will be used as set forth in its enacting legislation. Debt obligations must be approved by City Council and adhere to state and federal laws which authorize and govern the issuance of debt, and securities law, which governs disclosure, sale and trading of the debt. Each issuance of debt will be bid in order to procure the lowest possible cost to the City.

Management of Debt Obligations

The function of debt service repayment is the responsibility of the Finance Director who will monitor cash flows to ensure funds are available for payment on outstanding debt. It is the goal of the City to repay debt in a timely manner so as to avoid penalties and charges. All currently held debt obligations will be reviewed annually to ensure adequate debt service reserves and to monitor adherence to debt limits.

Refundings

Periodic reviews of all outstanding debt will be conducted by management to determine if refinancing or refunding would be economically feasible or beneficial to the City.

Annual Audit of the City

The annual audit of the City shall include all outstanding debt of the City detailed in the Notes to the Financial Statements. In order to meet the submission deadline for the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association, the audited financial statements must be issued prior to December 31 of each calendar year for the preceding fiscal year ended June 30.

Arbitrage Compliance

The City shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code.

Sources of Funding for Capital Assets

In order to maintain adequate infrastructure and capital facilities to meet the needs of its citizens, the City of Greer intends to establish a Capital Equipment Replacement Fund when it is prudently and financially feasible to do so. The Capital Equipment Replacement Fund will be funded from General Fund revenue sources at a rate equivalent to the prior year’s depreciation expense. Until such time as the fund can be established, or if funds are needed above the amount the Capital Equipment Replacement Fund can provide, the City may fund the acquisition of equipment through sources of revenue generated by grants, other governmental contributions, lease purchase, or bond issue. Grants and contributions from other sources will be sought to help defer the cost of debt for any given project or acquisition.
Types of Debt

General Obligation Debt

General obligation debt is secured in whole or in part by a pledge of the City’s full faith, credit and taxing power of its general fund. GO debt implies the commitment to increase taxes necessary to repay the debt. Debt service on any general obligation bonds is provided from ad valorem taxes on real property within the City. Limitations of the purposes for which GO debt may be incurred for municipalities are listed in Section 14 of Article X of the Constitution of the State of South Carolina. GO debt is limited by state law as to the amount and term discussed under Debt Limitations. The State of South Carolina requires a referendum only when the new debt would exceed 8% of the assessed value or property in the city. Otherwise, the issue is required to be approved by City Council.

Revenue Bonds

Revenue bonds may be issued by certain Special Revenue funds of the City to finance capital projects. Revenues generated by the fund must be sufficient to cover the debt repayment and interest. Revenue bonds will not be secured by any pledge of ad valorem taxes or general fund revenues of the City and would be payable solely from the particular fund identified by the enacting legislation of the debt issuance. When the City finances capital projects by issuing revenue bonds, the term of the bonds will not exceed the expected life of those projects.

Tax Increment Financing Bonds

Tax Increment Financing Bonds may be issued by the City to finance capital projects for construction or improvements in public facilities and infrastructure in the support of redeveloping areas within the City. Revenues generated by the tax increment between the property’s value before the redevelopment and the property’s value after the redevelopment are pledged to repay the debt.

Capital Lease Purchase Financing

The City may enter into capital lease purchases for machinery and equipment. Lease purchase arrangements are not subject to the debt limitation imposed by the State unless the purchase being financed consists specifically of land and/or construction of buildings. Lease purchase financing does not pledge the full faith and credit of the City but rather offers investors/lien holders the purchased property as security for the financing, and the payment is subject to annual appropriation. In the event of default, repossess or foreclosure action could occur.

Anticipation Debt

Short-term anticipation debt should be issued only in interim circumstances when it is deemed necessary for cash-flow and operational purposes. Short-term anticipation debt will not be secured for fixed assets or capital projects.

The issuance of any debt for the City requires City Council approval.
Debt Limits

All debt incurred by the City of Greer will adhere to legal limits set by the State of South Carolina. General obligation debt may be incurred only for a public purpose and must not exceed eight percent of the assessed property in the City without referendum.

Credit Rating

The City strives to maintain high credit ratings by the primary rating services. These ratings reflect the general reputation of the City and its management. By maintaining high credit ratings, Greer can issue its debt at lower interest rates. Currently, the City maintains an A+ rating with Standard and Poor’s.

Investment of Bond Proceeds

The proceeds of any bond sales will be invested until used for the intended project in a manner consistent with state law and the City’s investment policies in order to maintain safety and liquidity of the funds.

Debt Management Policy

Regular, updated debt management policies are an important tool in ensuring the use of the City’s resources to meet its commitments in providing the required services to the citizens of the City of Greer and to maintain sound financial practices. This policy will be reviewed and updated periodically to reflect changes in city policy, state law, and federal regulations.

CAPITAL ASSET POLICY

Capital assets are defined as land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and various tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The terms capital assets and fixed assets are used interchangeably. The management of the City of Greer follows GAAP guidelines for recording and depreciating fixed assets in its funds. Capital assets will be accounted for at historical cost or, if the cost is not practically determinable, at estimated cost. The historical cost will include the cost of any subsequent additions or improvements but exclude the cost of normal maintenance and repairs unless such is determined to either extend the useful life of the asset or enhance the asset’s functionality (effectiveness or efficiency). Donated fixed assets should be recorded at their estimated fair value at the time received.

Equipment, Machinery and Vehicles

All equipment, machinery and vehicles at a cost equal to or above $15,000 will be entered, maintained and capitalized in the fixed assets computer system and will be depreciated over its useful life.
Land and Buildings

All land and buildings purchased by the City or donated to the City at a cost equal to or above $25,000 will be entered, maintained and capitalized in the fixed assets computer system. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Infrastructure

With the implementation of GASB-34 the City will capitalize infrastructure which is defined as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets that are immovable and of value only to the governmental unit.

Upon the implementation of GASB-34 General Fund assets will be depreciated utilizing the straight-line method with the following useful lives:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Lives</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Not applicable</td>
<td>2.5%</td>
</tr>
<tr>
<td>Buildings</td>
<td>40 years</td>
<td>5%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>20 years</td>
<td>10%</td>
</tr>
<tr>
<td>Heavy Vehicles and Trucks</td>
<td>10 years</td>
<td>14.3%</td>
</tr>
<tr>
<td>Equipment</td>
<td>7 years</td>
<td>20%</td>
</tr>
<tr>
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</table>
TAX-ADVANTAGED BOND COMPLIANCE POLICIES AND PROCEDURES

These Tax-Advantaged Bond Compliance Policies and Procedures have been initially approved by the City Administrator of City of Greer, South Carolina (the “City”), on January 14, 2012.

Statement of Purpose; Summary

The City may, from time to time, finance its capital improvements and operations through the issuance of debt obligations that are eligible for tax benefits under federal and South Carolina law. Such obligations may include tax exempt bonds and/or bonds eligible for tax credits (direct subsidies to the City or tax credits to bond owners). All such obligations are referred to herein as “Tax-Advantaged Bonds,” whether in the form of general obligation bonds, revenue bonds, bond anticipation notes, tax anticipation notes, lease-purchase obligations, installment-purchase obligations, tax increment bonds or otherwise.

The purpose of these policies and procedures is to ensure that the requirements of the federal and South Carolina law necessary to preserve the tax advantages of Tax-Advantaged Bonds are continuously complied with for the requisite periods.

This document contains two primary components:

- The Tax-Advantaged Bond Compliance Policies (the “Policies”), which are general statements of the goals of the City with respect to compliance with the federal and South Carolina law applicable to Tax-Advantaged Bonds; and

- The Tax-Advantaged Bond Compliance Procedures (the “Procedures”), which are specific operational procedures by which the City intends to ensure, on a continuing basis, that its issuance, payment of debt service on, and expenditure and investment of the proceeds of Tax-Advantaged Bonds are and remain in compliance with the federal and South Carolina law applicable to Tax-Advantaged Bonds.

The Policies may be modified, expanded, abridged, or otherwise amended only by the City Administrator of the City upon consultation with the City Attorney and the City’s bond counsel (“Bond Counsel”).

The Director of Finance and Information Technology will be responsible for ensuring that Tax-Advantaged Bonds comply with federal and South Carolina law applicable to Tax-Advantaged Bonds and will develop and implement the Procedures. The Procedures may be modified, expanded, abridged, or otherwise amended by the Director of Finance and Information Technology in consultation with Bond Counsel, in order to: (a) ensure efficiency of administration; (b) establish and maintain appropriate assignments of staff responsibility; (c) reflect changes in the City’s system of accounting, financial controls, procurement practices, or other internal procedures and practices; (d) respond to changes in law or interpretation that may, from time to time, be reported to the City by Bond Counsel; or (e) otherwise ensure compliance with the Policies in the most efficient and effective manner.
PART I: TAX-ADVANTAGED BOND COMPLIANCE POLICIES

A. Investment and Expenditure of Bond Proceeds. The City’s system of internal controls and accounting will be capable of tracking the investment and expenditure of proceeds of Tax-Advantaged Bonds and other amounts subject to special requirements, and the allocation of such proceeds and other amounts to City facilities. Appropriate coding will be developed to identify City facilities (or portions thereof) financed or refinanced by Tax-Advantaged Bonds. Such procedures will ensure that such proceeds are expended only for the purposes authorized by the ordinance and, as applicable, referendum, pursuant to which such bonds were issued and in compliance with the Arbitrage and Tax Compliance Certificate relating to the Tax-Advantaged Bonds or other instructions of Bond Counsel.

B. Bond-Financed Facilities. The City will track the use of facilities (or portions thereof) financed or refinanced by Tax-Advantaged Bonds in the private trades or businesses of non-governmental persons. Arrangements for the sale, disposition, lease, management or other use of substantial portions (more than 1%) of facilities financed or refinanced by Tax-Advantaged Bonds with a term of (i) less than 200 days will be subject to prior review and approval by the City Administrator, and (ii) equal to or greater than 200 days will be subject to prior review and approval by the City Administrator and Bond Counsel. The Director of Finance and Information Technology will track the aggregate annual private use (if any) of facilities provided by Tax-Advantaged Bonds.

C. Periodic Review. The City will periodically review compliance with the requirements of the federal and South Carolina law necessary to preserve the tax advantages of such Tax-Advantaged Bonds. Such reviews should include final allocations of proceeds not later than 18 months after completion of bond-financed facilities and annual reviews to ensure private business use of bond financed facilities does not exceed allowable levels. Such annual review should be conducted in connection with the preparation of the City’s audited financial statements.

D. Potential Non-Compliance. Should the Director of Finance and Information Technology, upon any annual review or otherwise, discover non-compliance with any requirements of federal or South Carolina law necessary to preserve the tax advantages of such Tax-Advantaged Bonds, such Procedures will include steps to be taken, in concert with Bond Counsel, to remedy any such non-compliance.

E. Retention of Professionals: Rebate Analyst. The City will engage such professionals or consultants as are necessary, in the judgment of the Director of Finance and Information Technology, to ensure that the requirements of federal and South Carolina law necessary to preserve the tax advantages of such Tax-Advantaged Bonds are timely met, including, without limitation, the requirement to compute and pay rebateable arbitrage to the United States government or to confirm an exception thereto. The Director of Finance and Information Technology will ensure that all information reports or other returns or filings with the United States Department of Treasury or Internal Revenue Service timely will be filed on behalf of the City.

F. Purchase of Investments. All investments of the proceeds of Tax-Advantaged Bonds will be purchased at Fair Market Value, as defined in the federal tax laws, and will comply with the requirements of federal tax law relating to yield restriction as advised by Bond Counsel.

G. Credit Enhancement Transactions. The Director of Finance and Information Technology will consult with Bond Counsel prior to engaging in any post-issuance credit enhancement transactions (i.e., bond insurance or letters of credit) or hedging transactions (i.e., interest rate swaps) relating to any Tax-Advantaged Bonds.
H. **Subsidy Payments.** The **Director of Finance and Information Technology** will implement proper procedures to ensure that any federal subsidy payable in respect of any direct-pay tax credit bonds is timely transmitted to the appropriate account of the City including the timely filing of any required return or other documentation.

I. **Post-Issuance Modifications.** The **Director of Finance and Information Technology** will consult with Bond Counsel prior to any modification of the interest rate, maturity date, or other material terms of any outstanding Tax-Advantaged Bonds.

J. **Records Retention.** The City will retain records sufficient to demonstrate compliance with the requirements of federal and South Carolina law necessary to preserve the tax advantages of such Tax-Advantaged Bonds for the period required by law, presently understood to be the life of the debt obligations or any succeeding refunding obligations plus 3 years.
TAX-ADVANTAGED BOND PROCEDURES

These Procedures are organized with reference to the applicable lettered paragraphs in the Policies.

Certain of these Procedures assign responsibilities to named officials of the City. The named officials may delegate certain assigned responsibilities but will remain responsible for compliance with these Procedures. The official with ultimate responsibility for compliance with the Policies and Procedures will be the City Administrator.

A summary of the initial responsibility assignments appears as Exhibit A to these Procedures.

Policy A: Investment and Expenditure of Bond Proceeds.

Implementing Procedures:

1. The Director of Finance and Information Technology will charge capital expenditures that are financed by debt to the corresponding capital projects fund. Each project will have a specific fund number used to track that project, and discrete expenditures will be further categorized by project location (by street address or name of facility) and functional description of financed improvement.

2. The Procurement Director will enter purchase orders and the Director of Finance and Information Technology will pay and capture such purchase orders in the general ledger by the specific account code.

3. The Procurement Director will electronically scan, file and retain all purchase orders and invoices by vendor, check number, check date, and purchase order number, if applicable.

4. Until final allocation of bond proceeds, on a monthly basis, at a minimum, the Director of Finance and Information Technology will analyze each project for expenditures and will summarize such expenditures on a spreadsheet showing the year-to-date expenditures for that project and will identify facilities or equipment financed or refinanced by Tax-Advantaged Bonds ("Bond Financed Facilities"). A copy of the City’s transaction activity report and/or summary report by account code generated from the general ledger will be used to back up this spreadsheet and filed with that spreadsheet.

5. The Director of Finance and Information Technology will ensure that the investment of all proceeds of Tax-Advantaged Bonds is tracked by fund or account (e.g., debt service fund, debt service reserve fund, project or construction fund, etc.) and investment yield.

Policy B: Bond-Financed Facilities.

Implementing Procedures:

1. The Facilities Director will meet at least annually and coordinate with the City Administrator to review and evaluate existing or pending sales, leases, management contracts, research contracts, or other special legal entitlements that relate to the City’s real or personal property (collectively, “Use Arrangements”).

2. The Facilities Director will be responsible for determining whether any Use Arrangement relates to Bond Financed Facilities. If so, the Facilities Director will consult with the City Attorney and solicit advice concerning the Use Arrangement. If the term of the Use
Arrangement relating to any Bond Financed Facilities (with any extensions at the sole option of the counterparty) exceeds 200 days, the **Facilities Director** and the **City Attorney** will also consult Bond Counsel for advice prior to execution of the Use Arrangement.

3. The **Procurement Director** will notify the **City Administrator** upon receipt of any Use Arrangements submitted for approval for any Bond Financed Facilities.

**Policy C: Periodic Review.**

**Implementing Procedures:**

1. Promptly after the adoption of the Policy, the **Director of Finance and Information Technology** will cause an evaluation of tax compliance to be undertaken for each outstanding issue of Tax-Advantaged Bonds (the "**Initial Evaluation**"). Upon the completion of the Initial Evaluation, the **Director of Finance and Information Technology** will prepare a report to the **City Administrator** on the results of the Initial Evaluation (the "**Initial Report**") which will identify all Tax-Advantaged Bonds then outstanding and the Bond Financed Facilities allocable to each such issue of Tax-Advantaged Bonds. The Initial Report will express the findings of the **Director of Finance and Information Technology** whether each outstanding issue of Tax-Advantaged Bonds satisfies the requirements of the Policy and will contain (A) a spreadsheet setting forth any Use Arrangement with respect to any Bond Financed Facilities and the Tax-Advantaged Bonds to which they relate, and (B) a statement that any arbitrage rebate then due has properly been paid or that an exception or exemption from such payment is available.

2. The **Director of Finance and Information Technology** annually will cause a follow-up evaluation of tax compliance to be undertaken for each outstanding issue of Tax-Advantaged Bonds (the "**Annual Evaluation**") with the same objectives and scope as the Initial Evaluation and will provide to the **City Administrator** a report (the "**Annual Report**") of the findings of the Annual Evaluation and an updated spreadsheet concerning private business use for each issue of Tax-Advantaged Bonds. Such allocation may be conducted in connection with the preparation of the City’s audited financial statements for the fiscal year in which the final expenditure was made.

3. Not later than 18 months after completion of any Bond Financed Facilities, the **Director of Finance and Information Technology** will make and retain a final allocation of the expenditure of proceeds of Tax-Advantaged Bonds and other amounts used to finance such improvements.

**Policy D: Potential Noncompliance.**

**Implementing Procedures:**

1. If the Initial Evaluation or any Annual Evaluation discloses potential non-compliance with the tax requirements applicable to any issue of outstanding Tax-Advantaged Bonds, the **Director of Finance and Information Technology** will promptly consult with the City Attorney and Bond Counsel. Such consultation will consider whether the evaluations were properly performed and whether any amendments to Use Arrangements, adjustments to allocation methodologies, mixed financing sources, or other accounting techniques may avoid non-compliance.
2. If the City determines after consultation with counsel that non-compliance has occurred, the Director of Finance and Information Technology will promptly consult Bond Counsel concerning the ability of the City to remedy the non-compliance under applicable IRS regulations or to seek a voluntary closing agreement.

Policy F: Retention of Professionals: Rebate Analyst.

Implementing Procedures:

1. If the City determines that any of its outstanding Tax Advantaged Bonds are not exempt from rebate, the City will engage an arbitrage rebate firm as its arbitrage rebate computation agent (the "Rebate Analyst"). The Director of Finance and Information Technology will ensure that records of investment and expenditure of the proceeds of Tax-Advantaged Bonds are timely delivered to the Rebate Analyst and that the Rebate Analyst prepares annual computation reports that advise the City of any rebatable arbitrage accrued with respect to any such bonds.

2. The Director of Finance and Information Technology will ensure that the Rebate Analyst timely prepares returns relating to payment of arbitrage rebate (currently on IRS Form 8038-T) and that such forms are timely filed with and any rebatable arbitrage are timely paid to the United States as required under Section 148(f)(4) of the Code.

Policy G: Purchase of Investments.

Implementing Procedures:

1. All investments of the proceeds of Tax-Advantaged Bonds will be made by the City at the direction of the Director of Finance and Information Technology, who will ensure that such proceeds are invested in compliance with federal tax requirements and that all such investments are made at Fair Market Value. The Director of Finance and Information Technology will consult with Bond Counsel prior to investing any proceeds of Tax-Advantaged Bonds in guaranteed investment contracts or certificates of deposit not publicly traded on any investment exchange.

Policy H: Credit Enhancement Transactions.

Implementing Procedures:

1. Prior to bidding for, purchasing, entering into, or otherwise engaging in any post-issuance credit enhancement transactions relating to the proceeds of or debt service on Tax-Advantaged Bonds (including, without limitation, bond insurance policies, letters of credit, guaranteed investment contracts, interest rate swaps, and market hedges), the Director of Finance and Information Technology will consult with Bond Counsel.

Policies I: Subsidy Payments.

Implementing Procedures:

1. See the implementing procedures of Policy A, above.
**Policy I: Post-Issuance Modifications.**

**Implementing Procedures:**

1. Prior to entering into any modification of the terms of any outstanding Tax-Advantaged Bonds (including, without limitation, changes in maturity date, interest rate, call provisions, financial or earnings covenants, or use of proceeds), the Director of Finance and Information Technology will consult with Bond Counsel.

**Policy J: Records Retention.**

**Implementing Procedures:**

1. **Retention Period:** Records material to Tax-Advantaged Bonds will be retained by the City for a period equal to the maturity of such Tax-Advantaged Bonds plus 3 years. In the event any Tax-Advantaged Bonds are refunded, records of the original Tax-Advantaged Bonds will be retained until the maturity of the refunding Tax-Advantaged Bonds, plus 3 years.

2. **Records to be Retained:**
   
   A. Records regarding the issuance and sale of the Tax-Advantaged Bonds (bond transcript and closing documents), the investment and expenditure of the original proceeds of the Tax-Advantaged Bonds and any investment earnings, including requisitions, trust or investment statements, bidding certificates for guaranteed investment contracts, rebate computations, credit enhancement contracts, swap or other derivative contracts, certifications relating to any of the foregoing, rebate computations, any filings with the IRS, any correspondence with the IRS, and architectural or construction drawings and documents of the bond financed or refinanced facilities.

   B. Elections regarding accounting methods, rebate matters, or application of regulatory provisions.

   C. Copies of any Use Arrangements, including, without limitation, the following arrangements involving the use of any facilities financed by the Bonds: leases, naming rights agreements, title retention agreements, management contracts, sponsored research contracts, capacity reservation agreements, agreements regarding rates or charges for use of Bond Financed Facilities, incentive payment service contracts, requirements contracts or "take" contracts or "take or pay" contracts.

   D. The Director of Finance and Information Technology will be custodian of the foregoing records.

The Foregoing Procedures were last revised on January 14, 2012.

[Signature]

**David H. Bejest, CPA**

Director of Finance and Information Technology

City of Greer, South Carolina
Summary of Responsibility Assignments

City Administrator

1. Ensure overall compliance with Policies and Procedures; monitor responsibility assignments and periodically review Procedures; periodically revise Policies as necessary.

2. Meet at least annually with the Facilities Director to evaluate use of bond financed facilities. (Policy B)

Director of Finance and Information Technology

1. Periodically revise Procedures as necessary.

2. Report potential non-compliance to Bond Counsel. (Policy D)

3. Consult with Bond Counsel before (a) purchasing guaranteed investment contracts or non-publicly traded certificates of deposit with proceeds of, (b) entering into credit enhancement transactions with respect to, or (c) modifying the terms of, Tax-Advantaged Bonds. (Policies F and G)

4. Monitor, record, and allocate expenditure of bond proceeds by project location and functional description. (Policy A)

5. Ensure preparation of and review Initial Report and Annual Reports. (Policy C)

6. Until final allocation of bond proceeds, prepare a monthly report of project expenditures. (Policy A)

7. Prepare and retain separate records for investment performance of bond proceeds. (Policy A)

8. Prepare Initial Report and Annual Reports. (Policy C)

9. Make and record final allocations of expenditures of proceeds of Tax-Advantaged Bonds. (Policy A)

10. Retain and manage relationship with Rebate Analyst. (Policy E)

11. Ensure compliance with retention policies and act as custodian of retained records. (Policy J)

Facilities Director

1. Meet at least annually with the City Administrator to evaluate use of bond financed facilities. (Policy B)

2. Monitor Use Arrangements and consult with counsel prior to entering into new Use Arrangements. (Policy B)

Manager of Procurement Services Division

1. Coordinate with the Director of Finance and Information Technology on purchase orders and expenditures with respect to Bond Financed Facilities. (Policy A)

2. Scan and file all purchase orders and invoices with respect to Bond Financed Facilities. (Policy A)

3. Notify the City Administrator of any Use Arrangements submitted for approval that relate to Bond Financed Facilities. (Policy B).