

# FINANCIAL POLICIES

## Overview

The first goal of the County's Strategic Plan is to develop a financial plan to maintain and enhance the community by providing a sound quality of life and a safe living environment for its citizens. Northampton County strives to meet and improve the delivery of service to its citizens through sound fiscal management. The Board of Supervisors and county staff have committed themselves to this responsibility through the establishment of financial management policies and programmatic goals which demonstrate sound resource management and a high level of public accountability.

## Accounting Policy

### 1) General

- a) An accounting policy addresses the accounting methods utilized in the different fund types for revenues, expenditures, assets, liabilities and fund equity.
- b) An accounting policy also addresses the process through which revenues are collected and disbursements made.

### 2) Standards

- a) Generally Accepted Accounting Principles (GAAP).
- b) National Council on Governmental Accounting Statements.
- c) Governmental Accounting Standards Board (GASB).
- d) Financial Accounting Standards Board (FASB).
- e) Accounting Principle Board opinions.
- f) Accounting Research Bulletins.
- g) Code of Virginia.
- h) Commonwealth of Virginia's Library and Archives Public Records Management.

### 3) Financial Statements

- a) All activities for which the County exercises oversight responsibility are incorporated into the financial statements to form the reporting entity.
- b) The School Board and all of its funds (School, Cafeteria, Lunch Room, Health Grant, Capital Development and Scholarship) are classified as a discreetly presented component unit of the financial reporting entity.
- c) The Comprehensive Annual Financial Report (CAFR) will be prepared at the conclusion of the County audit.

### 4) Fund Accounting

- a) Accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity.
- b) Operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equities, revenues and expenditures, or expenses, as appropriate.
- c) Modified accrual basis of accounting will be followed by the governmental funds and agency funds with revenues recognized when measurable and available and expenditures recognized when incurred, with the exception of interest on long-term debt, which is recognized when due.
- d) Accrual basis of accounting will be followed by the proprietary fund types with revenues recognized when earned and expenses recognized when incurred.

5) Capitalization & Depreciation Policy (Fixed Assets)

- a) Fixed assets shall be capitalized for unit costs greater than a \$5,000 expenditure.
- b) Fixed assets shall be depreciated over the estimated useful life of the asset using the straight-line method as follows:
  - i. Buildings: 20 – 30 years
  - ii. Equipment: 5-15 years
  - iii. Assets acquired during the fiscal year will be depreciated on a monthly basis.

# Audit Policy

## 1) General

Audit policy provides guidance on the selection of an independent accounting firm to provide opinions and/or reports on the County's financial statements and internal controls in compliance with federal and state standards.

## 2) Standards

- a) Generally Accepted Auditing Standards (GAAS).
- b) Government Auditing Standards issued by the Comptroller General of the United States.
- c) Specifications for Audit of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia.
- d) Office of Management and Budget (OMB) Circular A-128 and Compliance Supplement for Single Audits of State and Local Governments.
- e) Code of Virginia

## 3) Planning and Performance

- a) To obtain reasonable assurance as to whether the financial statements are free of material misstatement by examining on a test basis evidence supporting the amounts and disclosures in the financial statements.
- b) To maintain compliance with the Single Audit Act.
- c) To perform additional audits of County, School Board and constitutional officer activities based upon risk assessment of activity, function or process.

## 4) Selection of Auditors

- a) Auditors will be selected to perform annual audits through a request for proposal (RFP) process every three years, unless otherwise approved by the Board of Supervisors.
- b) Auditors will review the Comprehensive Annual Financial Report (CAFR) for submission to the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

## 5) Opinions on Financial Statements

- a) Financial statements present fairly, in all material respects, the financial position of the County as of year-end and the results of its operations and cash flows of its proprietary funds for the year then ended in conformity with generally accepted accounting principles.
- b) Other data included in the CAFR designated in the statistical section is not audited and accordingly has no opinion.

## **BUDGET POLICY**

**Adopted: September 10, 2013**

- 1) General
  - a) The County's budget policy will address the processes by which a budget is formulated from departmental requests to Board of Supervisors adoption.
  - b) A budget policy addresses the authorization levels for the approval of the annual budget and all budget adjustments for revenues and expenditures of all funds.
- 2) Standards
  - a) Generally Accepted Accounting Principles (GAAP).
  - b) Uniform Financial Reporting Model of the Auditor of Public Accounts of the Commonwealth of Virginia.
  - c) Government Finance Officers Association's Criteria for Distinguished Budget Award.
  - d) Code of Virginia.
- 3) Budget Objectives
  - a) The County Administrator will identify proposed budget objectives and budget schedule to be presented to the Board of Supervisors.
  - b) The budget objectives will be used as the foundation in the formulation of the County Administrator's recommended budget and the budget schedule will identify important dates throughout the budget preparation and adoption period.
  - c) The following objectives shall be annual budget objectives:
    - i. Adoption of budget and review of the Capital Improvements Plan.
    - ii. Funding of schools through a reasonable funding formula.
    - iii. Anticipated property tax rate levels.
    - iv. Provision of adequate employee compensation.
    - v. Compliance with financial policies and maintaining bond ratings.
    - vi. Vehicle replacement program.
  - d) The following items will occur in conjunction with the budget preparation and adoption process unless it has been determined that the proposed item is needed in a more expedited manner, in which case the Board of Supervisors approval is required.
    - i. Ordinance changes involving fee/rate changes.
    - ii. New positions or changes to existing positions.
    - iii. Reimbursement resolutions for debt financed capital projects that would allow certain appropriated expenditures to occur prior to the receipt of debt proceeds.
    - iv. Approval of acquisition of vehicles.
- 4) Capital Improvements Program (CIP)
  - a) CIP is a plan for capital expenditures and a means of financing facilities, equipment and vehicles during the next five years with a unit cost greater than \$50,000.
  - b) Included in the CIP formulation is the operating impact of the proposed project, including personnel, operating expenditures, capital outlay and debt service.
  - c) To the extent feasible, General government projects will be funded by General Fund revenues (i.e., "pay-as-you-go funding").
- 5) Budget Preparation
  - a) The Finance Department and County Administrator will establish a budget schedule by October 1, which will include important dates throughout the budget preparation period.
  - b) All departments, excluding the School Board, will submit their requested budget to the Finance Department by November 15, with the requested budget providing detail to personnel, operating and capital requests, including five year capital improvement program requests, and performance objectives.
  - c) County Commissions, Volunteer Organizations and Other Organizations

- i. All community organizations shall submit their requests for contributions to the Finance Director.
    - ii. The Volunteer Associations for Fire and Rescue Squads shall assist in the formation of the Fire and Rescue Squad budgets, respectively.
    - iii. The Community Services Board and Social Services Board shall approve the departmental budget of their respective organizations prior to submission to the County Administrator.
  - d) The School Board is requested to submit their budget request by December 31.
  - e) At the Board of Supervisors' meeting on the second Tuesday in March, the County Administrator shall submit to the Board of Supervisors a proposed budget, which includes proposed expenditures, segregated at the departmental level between personal services, operating expenditures and capital outlay, and a means of financing the expenditures for the fiscal year commencing July 1.
  - f) A consolidated public hearing on the budget, ordinance changes and personal property tax rates with a separate public hearing on the real property tax rate, if applicable, shall be held no later than five weeks after the County Administrator submits the proposed budget to obtain citizen comments.
  - g) The consolidated public hearing notices shall appear at least seven days prior to the public hearing date.
- 6) Budget Adoption
  - a) Following the public hearing, the Board of Supervisors adopts a balanced budget. The budget is considered balanced when net revenue equals appropriations.
  - b) The budget is legally enacted through passage of an appropriations resolution for all governmental and proprietary fund types that places legal restrictions on expenditures at the function level or category level.
  - c) For all funds except the School Funds, the level of control (level at which expenditures may not exceed budget) is the function level as established by the Commonwealth of Virginia Auditor of Public Accounts.
  - d) For the Education Funds, the level of control is the activity level as established by the Commonwealth of Virginia Department of Education.
  - e) Although legal restrictions on expenditures are established at the function or activity level, effective administrative control over expenditures is maintained through the establishment of more detailed line-item budgets.
  - f) At all times the County will maintain compliance with the Code of Virginia in appropriating, advertising public notices, ordinance changes, requests for referendums and any other legal restrictions imposed upon localities.
  - g) The Adopted Budget Document will be forwarded to the GFOA and other interested parties within 90 days of budget adoption for the Distinguished Budget Award program.
- 7) Budget Amendments
  - a) Department Heads and Constitutional Officers may approve transfers within their own operating budgets (with the exception of transfers affecting salaries and related accounts.) The County Administrator is authorized to transfer budgeted amounts between departments, but any revisions that alter total expenditures must be approved by the Board of Supervisors through legislative action. All supplemental appropriations must be reported in a public meeting of the Board of Supervisors and made a matter of record in the minutes.
  - b) Per the Code of Virginia, any supplemental appropriation which increases the total budget by 1% of the total budget to be advertised for a public hearing at least seven days prior to the Board of Supervisors' approval of appropriation.
  - c) If deficits appear to be forthcoming within a fiscal year, recommended spending reductions would be proposed by the County Administrator during the fiscal year in order to sufficiently offset the deficit.
- 8) Budgetary Accounting

- a) Budgets are adopted on a modified accrual basis for all government funds and on full accrual for the proprietary fund. The budgetary basis and the accounting basis are the same. The modified accrual basis recognizes revenues as they are measurable and available to meet the current period's expenditures, and recognizes expenditures as they are incurred. Full accrual recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.
- b) All budget data in the Comprehensive Annual Financial Report represents the revised budget (adopted budget, re-appropriations, supplemental appropriations and budget transfers).

## DEBT POLICY

**Amended: September 10, 2013**

1. General

A debt policy addresses the level of indebtedness the County can reasonably expect to incur without jeopardizing its existing financial position and ensures the efficient operation of the County. The debt policy is to be used in conjunction with the Annual Operating Budget, the Capital Improvement Program (CIP) and the County's other financial policies.

2. Standards

- a. National Federation of Municipal Analysts
- b. Government Accounting Standards Board
- c. Government Finance Officers Association (GFOA)

3. Planning and Performance

- a. The planning, issuance and review of outstanding and proposed debt issuances will ensure that compliance with the debt policy is maintained.
- b. The County may issue debt for the purpose of acquiring or constructing capital projects including buildings, machinery, equipment, furniture and fixtures.
- c. Debt issuances will be pooled together when feasible to minimize issuance costs.
- d. Whenever a need for financing is identified, an analysis will be completed to determine the optimum type of financing to be used which will consider issuance costs, required debt service reserves, flexibility of terms and any other factors deemed appropriate.
- e. The County will issue debt only as authorized by the Code of Virginia.
- f. The County will establish a Capital Improvements Plan which will include all debt-related projects, and which will identify the debt service impact on operations and tax rates.

4. Issuance Guidelines

- a. The County will not use long-term borrowing to finance current operating needs.
- b. Long-term debt will be issued only in compliance with all aspects of the debt policy.
- c. The maturity of any debt will not exceed the expected useful life of the project for which the debt is issued.
- d. Each project proposed for financing will include an analysis for potential tax impact and future operating costs associated with the project and its debt service.
- e. The County will maintain total tax-supported debt, including leases, as a percent of total taxable Real Estate and Personal Property Assessed Value of the County at a level not to exceed 4%.
- f. The County will maintain annual tax-supported debt service Governmental Fund expenditures plus School Expenditures net of interfund transfers at a level of not to exceed 12%.
- g. The County intends to maintain its 10 year tax-supported debt and lease payout ratio at or above 60% at the end of each adopted five year CIP. The payout ratio shall be no less than 55% in any one year during that period.
- h. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.
- i. The County will follow a policy of full disclosure in every financial report and in Official Statements related to bond issues.
- j. All issuances of debt require the approval and appropriation of the proceeds by the Board of Supervisors.
- k. When it has been determined that a project will be financed, the Board of Supervisors may use the County's General funds to initiate the project with the intent of reimbursing the funds after the proceeds of the financing are received by adopting a reimbursement resolution prior to incurring project-related expenses.

- I. In most cases, proceeds of bond issues will be invested with Virginia State Non-arbitrage Program (SNAP) in order to track any arbitrage liability that may accumulate from interest earnings.

## FUND BALANCE POLICY

**Amended: September 10, 2013**

1. General

The term *fund balance* describes the net assets of the County's governmental funds calculated in accordance with Generally Accepted Accounting Principles (GAAP). It is intended to serve as a measure of the financial resources available in a governmental fund. The County's policy on fund balance recognizes the importance of this measure in determining credit worthiness to bond rating agencies, investors and others interested in the economic condition of the County. This policy establishes a minimum acceptable level of Unreserved General Fund Balance and describes the factors which were considered in order to establish it. This policy also establishes the action to be taken if fund balance falls below the minimum acceptable level.

2. Standards

- a. Governmental Accounting Standards Board (GASB)
- b. Government Finance Officers Association (GFOA)

3. Planning

- a. Reserved – Reservations of fund balance will be recorded in all governmental funds in accordance with Generally Accepted Accounting Principles (GAAPs). The County will reserve portions of fund balance as needed for outstanding encumbrances, amounts reserved for future debt service, capital outlay and perpetual care.
- b. Unreserved – Unreserved Fund Balance is the portion of fund balance in governmental funds that is available for spending. It is essential that an adequate level of unreserved fund balance be maintained to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.
  - i. Unreserved Fund Balance in governmental funds other than the General fund will be reviewed on an annual basis in order to determine an appropriate level, whether adjustments are necessary, and what actions to take in order to achieve those adjustments.
  - ii. In order to establish an appropriate level of Unreserved Fund Balance in the General fund, the following factors were considered:
    1. Predictability of revenues and volatility of expenditures – The County's General Fund revenue sources are very stable and predictable, however because of the annual tax billing, cash flows are much greater in the late fall and winter than in the spring and summer. The level of the County's unreserved General Fund balance must be sufficient at June 30<sup>th</sup> of each year to cover this fluctuation in revenue collection. General Fund expenditures are generally stable and spread fairly evenly over the course of the year. The County does experience unanticipated expenditures due to a variety of events including equipment breakdowns, funding requests from other agencies, and natural disasters.
    2. Availability of resources in other funds/drains upon resources from other funds – The vast majority of resources in other funds is reserved for a specific purpose and is therefore not available. The County has a component unit school board fund and a social services fund that accumulate no fund balance. These funds combined are larger than the County's General Fund. The County's Unreserved General Fund Balance must be sufficient to cover fluctuations in the revenue of these funds and to cover any reimbursable expenditure of those funds prior to reimbursement by other agencies.
    3. Liquidity – The County experiences some liquidity issues due to the annual tax billing cycle. Other factors affecting liquidity are the financing of initial capital project expenses with General fund balance. These expenditures are

reimbursed once the financing proceeds are received. The County also frequently has grant-funded capital projects underway, which are funded on a reimbursement basis. Unreserved General Fund Balance should be sufficient to cover these liquidity issues.

4. Designations – Some portions of Unreserved General Fund Balance may be designated for a specific purpose and may require higher levels as appropriate.
5. GFOA's recommendation – GFOA recommends that all General-purpose governments maintain at a minimum Unreserved General Fund Balance of five to fifteen percent of regular General Fund operating revenues and no less than one to two months of regular General Fund operating expenditures.

4. Performance

Based on the factors listed above, the following policy has been adopted by the Board of Supervisors of Northampton County:

Unreserved Fund Balance in the General Fund shall be measured annually at June 30<sup>th</sup>, and shall be an amount equal to at least 10% of the combined budgeted expenditures of the General Fund, Social Services Fund, Eastern Shore Regional Jail Fund and School Operating Fund (net of interfund transfers) for the fiscal year ending on that day. In determining the level of fund balance for purposes of year-end disclosure in the Comprehensive Annual Financial Report, combined actual operating expenditures (net of interfund transfers) of the General Fund, Social Services Fund, Eastern Shore Regional Jail Fund and School Operating Fund shall be used and the percentage shall also meet the minimum 10% reserve balance. If at any time the Unreserved Fund Balance falls below the minimum acceptable amount, appropriate action will be taken by the Board to either increase revenues or reduce expenditures in the current fiscal year in order to bring the next year's fund balance amount to an acceptable level.

The County will segregate the Unreserved Fund Balance as follows:

- A. Fiscal Reserve Fund Balance, comprised of the minimum 10% of combined budgeted expenditures of the General Fund, Social Services Fund, Eastern Shore Regional Jail Fund and School Operating Fund (net of interfund transfers) of the fiscal year ending on June 30<sup>th</sup> shall be reported as Committed or Restricted Fund Balance. The Fiscal Reserve Fund Balance shall be reported as Committed or Restricted Fund Balance within the General Fund.
- B. When the County issued its 2012 refunding bonds through the Virginia Resource Authority (VRA), the County pledged to maintain its General Fund unassigned fund balance equal to a minimum of \$4,200,000 for FY2013 and annually thereafter through the term of the Lease with VRA through 2033 (known as the "VRA Covenant"). The unassigned fund balance will be measured as of June 30 of each fiscal year. This commitment may be met through the Fiscal Reserve Fund Balance as listed under 4A, above. If the Fiscal Reserve Fund Balance should not meet this VRA Covenant, then the Fiscal Reserve Fund Balance policy shall be amended to meet the obligations of the VRA Covenant.
- C. An Unassigned and/or Assigned to Capital Projects Reserve Fund line item(s) will be comprised of any amount exceeding 4A, above and shall be utilized by the Board of Supervisors to meet unforeseen circumstances or to provide funding for capital equipment, property, or building improvements.