

Financial Policies

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. Governmental Accounting Standards Board (GASB)
- c. Code of Virginia
- d. Commonwealth of Virginia's Library and Archives Public Records Management
- e. Auditor of Public Accounts Uniform Financial Reporting Manual

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. Include legally separate organizations which:
 - c. The County appoints a majority of the governing board and either
 - d. The County can impose its will
 - e. Or there exists a financial benefit or burden
 - f. Or there is a fiscal dependence
- g. The School Board and all of its funds (School Operating, Grants, Child Nutrition) are classified as a Component Unit of the County.
- d. EDA
- e. Airport Authority
- f. The County's 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. Proprietary fund types will follow accrual basis of accounting with revenues recognized when due.
- e. Purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

5. Fixed Assets

- a. Fixed assets shall be capitalized for individual items greater than \$5,000, with the exception of buildings, building improvements, construction in progress, intangible assets and land.
- b. Buildings, building improvements, construction in progress and tangible assets shall be capitalized for units greater than \$50,000.
- c. Land shall be capitalized regardless of cost.
- d. Fixed assets shall be depreciated over the estimated useful life of the asset. Enterprise funds will recognize depreciation expense.

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. General Accepted Auditing Standards (GAAS).
- b. Governmental Auditing Standards issued by the Comptroller General of the United States.
- c. Specifications for Audit of Counties, Cities, and the Commonwealth of Virginia.
- d. Office of Management and Budget (OMB) Circular 133-A Audits of States and Local Governments and Non-Profit Organizations.
- 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 five years, unless otherwise approved by the Board of Supervisors. The selection of the auditors will be made jointly between the County and Schools.

Budget Policy

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 and other issues presented to the Board of Supervisors during the budget process.
- 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.
- c. The state code requires that the School Board present a balanced budget, in which revenues equal expenditures, to the county on or before April 1. This budget document covers the period from July 1 through June 30.
 - d. There are three primary phases in the budget development process: 1) Superintendent's Proposed Operating Budget (administrative recommendation presented to the School Board), 2) School Board Proposed Budget (School Board recommendation to the County Board of Supervisors, and 3) School Board Adopted Budget (School Board adopted operating budget based on funding authorization/appropriation by County).
 - ii. The county approves the appropriation for the school system generally no later than May 15. Following the approval of total budget appropriation, the School Board makes the necessary adjustments to their budget proposal and adopts a final budget.
 - iii. The County is responsible in setting the overall (lump sum) appropriation and does not exercise "line-item" authority over the School Budget, this is vested with the School Board. Therefore, the remainder of this policy does not apply to the School
- d. To maintain a budgeting control system that helps the County adhere to the budget, with monthly status reports comparing actual revenues and expenditures to budgeted amounts.
- e. To establish a risk management program to safeguard public assets held in trust and to minimize the financial liability arising from accidental injury or death.

- f. To provide for adequate maintenance of capital plant and equipment and develop a capital asset replacement schedule from the fixed asset inventory records.
- g. To remain current in payments to the Virginia Retirement System and to pursue legislative options that reduce or eliminate unfunded pension liabilities.
- h. To annually increase the proportion of expenditures providing direct services to total budgeted expenditures and to annually decrease the proportion of expenditures supporting administration or other non-direct service activities.
- i. To finance recurring expenses from recurring revenue sources and to not develop a dependency, within the operating budget, on nonrecurring revenue sources.

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. 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. At least once every four years, the County will reassess services and service levels.
- d. The following objectives shall be reviewed during the annual budget process:
 - i. Anticipated property tax rate and assessment changes.
 - ii. Provision of adequate employee compensation.
 - iii. Compliance with financial policies.
 - iv. Vehicle replacement programs.
 - v. Reserve for contingencies within the budget year will be appropriated in the General Fund at an amount equal to at least 0.5 of the General Fund budget whenever practicable.
 - viii. Enterprise funds will be self-supporting through revenues generated from their enterprise activities.

e. 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 change involving fee/rate changes.
- ii. New positions or changes to existing positions.
- iii. Requests for bond referendums for which the results of the referendum will occur prior to the appropriating of bond proceeds and expenditures.
- iv. Reimbursement resolutions for debt financed capital projects that would allow certain appropriated expenditures to occur prior to the receipt of debt proceeds.
- v. Acquisition of vehicles.
- vi. Assessment of property values for tax purposes by the Commissioner of the Revenue.
- vii. Estimate of year-end fund balances by the Treasurer.

4. Budget Preparation

- a. The County Administrator will establish a budget schedule by the second Tuesday in October, which will include important dates throughout the budget preparation period.
- b. All departments, excluding the School Board will submit their requested budget to the County Administrator by February 1 or as soon as practicable thereafter, with the requested budget providing detail to personnel, operating and capital requests, including five-year capital improvement program requests, and performance objectives as well as capital improvement needs through the next ten years that are anticipated to be considered for inclusion in the CIP in five years.
- c. County Commissions, Volunteer Organization, and Other Organizations.
 - d. All community organizations shall submit their requests for contributions to the County Administrator's office.
 - ii. The volunteer fire departments and EMS shall assist in the formation of the Fire and EMS budgets.
 - 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's Office.
- d. At a meeting of the Board of Supervisors 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.
- e. 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 change, if applicable, shall be held no later than five weeks after the County Administrator submits the proposed budget.

- f. The consolidated Public Hearing notices shall appear at least seven days prior to the Public Hearing date, or such period of time as is required by law.
- g. The proposed budget summary shall be placed on the County's web page.

5. Budget Adoption

- a. As soon as practicable following the Public Hearing, the Board of Supervisors will adopt a balanced budget.
- 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. 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.
- d. At all times and notwithstanding anything in these policies to the contrary, the County will maintain compliance with the Code of Virginia in appropriating funds, advertising public notices, ordinance changes, requests for referendums, and any other legal restrictions imposed upon localities.
- e. Included with the budget resolutions is approval for the re-appropriation of all encumbered balances and capital project unencumbered balances at fiscal year-end.
- f. The Adopted Budget Document will be placed on the County's web page.

6. Budget Amendments

- a. Any additional appropriation which increases the total budget by more than 1 of the total budget will be advertised for a Public Hearing at least seven days prior to the Board of Supervisors' approval of transfer, or as otherwise required by the Code of Virginia.
- b. All transfers requiring Board of Supervisors' approvals that have been initiated from Social Services must have the Social Services Board approve the transfer prior to presentation to the Board of Supervisors.
- c. If deficits appear to be forthcoming within a fiscal year the County Administrator will recommend spending reduction to be approved by the Board during the fiscal year in order to sufficiently offset the deficit.

7. Budgetary Accounting

- a. Budgets are adopted on a basis consistent with GAAP for all government funds.
- b. Budgets for the propriety funds are also adopted in accordance with GAAP, with the exception that a budget provision is made for the payment of debt principal, reduction of refundable developer capacity fees credits and rebates, and depreciation is not budgeted.
- c. All budget data in the Comprehensive Annual Financial Report represents the revised budget (adopted budget, re-appropriations and budget transfers).

Fund Balance Policy

1. General

- a. The County desires to maintain the financial operation of the County in a manner consistent with sound financial management principles including guidelines and criteria established by bond rating agencies and the Governmental Accounting Standards Board (GASB).
- b. Sound financial management principles include the establishment of unassigned fund balances sufficient to maintain required cash flows and provide reserve for unanticipated expenditures, revenue shortfalls and other specific uses.
- c. The County will endeavor to maintain balances at such a level that it will not regularly incur short-term borrowings as a means to fund operations.

2. Standards

- a. Governmental Accounting Standards Board (GASB)

3. Planning and Performance

a. **Classifications of Fund Balance.** The County will classify fund balances in the following manner consistent with the requirements of GASB 54:

i. Non-Spendable Fund Balance

- a. The portion of fund balance that are not in cash or readily convertible to cash in the short term.
- b. Inventory balances at fiscal year-end that represent amounts invested in inventory and not available for appropriation.
- c. Advances to other funds at fiscal year-end that are currently not available for appropriation.

ii. Restricted Fund Balance

- a. Funds only able to be spent for specific purposes as stipulated by contributors outside the County government.
- b. Includes items such as restricted grants, unspent categorical state funds

iii. Committed Fund Balance

- a. Funds available for a specific use as designated by action of the Board of Supervisors
- b. Outstanding encumbrances (i.e., purchase orders, contracts and other commitments at fiscal year-end
- c. Funds re-appropriated to a subsequent year's budget

iv. Assigned Fund Balance

- a. Funds intended for a specific use as designated by the County Administrator
 - b. Fund balances in all funds except the general fund are assigned.
- v. Unassigned Fund Balance
 - a. All balances not restricted in use to another category.
- b. Order of use
 - a. It is the policy of Essex County to use funds from the fund balance categories in order of most restrictive to least restrictive, as appropriate. For example, for an allowable expenditure, restricted fund balances will be spent before committed, and committed before assigned fund balances when funds designated for the same purposes are available in multiple categories.
- c. Re-appropriations of capital project funds
 - i. The County Administrator shall have the authority to re-appropriate unencumbered balances to continue appropriated capital projects into the next fiscal year.
- d. Unassigned Fund Balance
 - i. The County shall maintain an unassigned fund balance at fiscal year-end for the purposes of unanticipated expenditures, to provide for cash flow reserves during the fiscal year due to the timing difference between the receipt of revenues and disbursement of expenditures, and to meet reserve policies and bond covenants.
 - ii. The County shall endeavor to achieve and thereafter maintain to the extent practicable a year-end balance at least equal to 25 of the General Fund's total expenditure budget (including transfers to other funds). The method the County will use to calculate its unreserved General Fund balance ratio is dividing actual unassigned balance as of fiscal year-end by the subsequent year's budgeted General Fund expenditures, including the General Fund transfer to schools and state aid to schools and social services in the expenditure-based denominator.

Debt Policies

1. The County will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.

2. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.
3. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
4. Outstanding debt of the County whether general obligation, lease revenue or subject to annual appropriation, shall not exceed 3.5 of the assessed valuation of real property. Annual debt service spending should target 10 or less and shall not exceed 12 of total annual general fund expenditures net of interfund transfers and inclusive of Essex County School Board's expenditures. The ten-year payout ratio for all County debt shall target a minimum of 55 of total principal outstanding. These ratios will be measured annually.
5. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
6. The County will only issue tax anticipation debt due to unforeseen circumstances and where cash flow projections identify an absolute need, and will retire any such tax anticipation debt annually. Bond anticipation debt will be retired within six months after completion of the project or upon availability of permanent financing.

Reserve Policies

1. The County Board may, from time-to-time, appropriate unassigned fund balances that will reduce available fund balances below the 25% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the County. In such circumstances, the Board will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.
2. In recognition of the incremental costs of capital improvements and their future maintenance and replacement costs, the County will establish a Capital Improvements Reserve Fund. The level of the Fund will be determined on an annual basis and incorporated into the County's Annual Operating Budget. This Fund will be initially established at some minimum level based upon a further evaluation of future capital improvements needs (inclusive of pay-go capital).