KING GEORGE COUNTY FINANCIAL POLICIES

Table of Contents

FISCAL POLICY GUIDELINES - OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of King George County, Virginia. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. Effective fiscal policy:

- Contributes significantly to the County's ability to insulate itself from fiscal crisis,
- Enhances short term and long term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the County rather than single issue areas,
- Promotes the view of linking long-run financial planning with day to day operations, and
- Provides the County Staff, the County Board of Supervisors and the County citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

To these ends, the following fiscal policy statements are presented.

Accounting and Financial Reporting 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) Governmental Accounting Standards Board (GASB)
b) Generally Accepted Accounting Principles (GAAP)
c) Government Financial Officers Association)GFOA)
d) Financial Accounting Standards Board (FASB)
e) Auditor of Public Accounts of Commonwealth of Virginia (APA)
9) 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. Appropriate standards as stated above are followed.

b) The School Board and all of its funds (School, Cafeteria, Textbook, School Construction, School Activity and Scholarship) are classified as a discretely presented component unit of the financial reporting entity.

c) The Comprehensive Annual Fiscal Report (CAFR) will be presented by an independent public accounting firm that will also publicly issue an opinion thereon no later than December 31 of each year.

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 is followed by the governmental funds and agency funds with revenues recognized when measurable and available and expenditures recognized when the liability is incurred.

d) Accrual basis of accounting is followed by proprietary funds with revenue being recognized when earned and expenses are recorded when incurred without regard to receipt or payment of cash.

e) Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is also used.

Budget Policy and Procedures

1. General

a) The County's budget policy will address the process by which a budget is formulated, adopted and monitored throughout the year.

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) A key factor is ensuring the adopted budget, as well as the amended budget is balanced at all times throughout the year.

2. Governing Standards

a) Governmental Accounting Standards Board (GASB)
b) Generally Accepted Accounting Principles (GAAP)
c) Government Financial Officers Association (GFOA)
d) Financial Accounting Standards Board (FASB)
e) Uniform Financial Reporting Model - Auditor of Public Accounts (APA) Commonwealth of Virginia
f) Code of Virginia
g) Commonwealth of Virginia, Department of Education
h) Commonwealth of Virginia, Library and Archives Public Records Management

3. Planning and Performance

a) The King George County Board of Supervisors will hold a budget kick off work session to review prior year performance, identify proposed budget objectives and directives for the upcoming fiscal year.

b) The budget directives and the strategic goals will be used as the foundation in the formulation of the County Administrator’s recommended budget.

c) Real estate property must be reassessed, at a maximum, every four years and equalized rate developed to ensure revenues are maintained at the same level as prior year actual.

The following areas shall be annual budget objectives: (Note: these may change once strategic goals are developed)

i. Ensure financial stability to avoid tax increases.

ii. Evaluate the effects of the economy and change in demographics on County revenues and expenditures.

iii. Ensure compliance with financial policies and maintain bond ratings.

iv. Include a budget for contingencies in the General Fund and carryover year end remaining funds each year.

v. Contribute to a revenue stabilization (rainy day fund) fund annually, when feasible. (See Revenue Stabilization Policy)

d) The following items will occur in conjunction with the budget preparation and adoption process unless it is determined otherwise, 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. Requests for bond referendums for which the results of the referendum will occur prior to the appropriating of bond proceeds and expenditures.

iv. Reassessment of strategic goals and objectives.

4. Operating Budget Preparation (Note: Due dates apply unless otherwise stated by the approved budget schedule for that budget year)

a) The Director of Finance, in conjunction with the County Administrator, will develop a budget schedule identifying important dates to present to the Board of Supervisors for approval during the month of October.

b) Budget objectives and directives, as communicated by the Board of Supervisors will be communicated to all departments and agencies no later than the first week in December.

c) Outside agencies will receive their directives no later than November 15 with requests due to King George County Department of Finance no later than December 15. (This includes Regional Jail, Juvenile Detention Center, Court Services Unit, etc.)

d) All departments, excluding the School Board, will submit their requested budgets to the Finance Department by the first week of January or according to the budget schedule. Note: Budgets should include operating costs resulting in capital improvements or projects that will affect that fiscal year's budget. (This includes the Library and Social Services)

e) Departments are to submit their strategic goals, objectives and performance measures to Department of Finance by January 15.

f) Finance develops revenue estimates to be submitted to the County Administrator by January 31. (Should include estimated grants received by County and School Board)

g) County Administrator reviews revenues and presents revenue estimates to the Board of Supervisors the first week in February.

h) The School Board shall submit their requested budget to the County Administrator or Director of Finance no later than March 1.

Schools' budget is to be presented to the Board of Supervisors no later than first week in March.

i) Finance will review expenditure budget requests and submit to the County Administrator no later than the end of January.

j) The County Administrator will conduct budget hearings with Department Heads and Constitutional Officers, as deemed necessary, to review budget requests and formulate a recommendation to the Board of Supervisors.

k) Finance updates the multi-year financial model used for long-term financial planning before the budget is presented to the Board of Supervisors. This is included with the budget packet.

h) At a scheduled meeting of the Board of Supervisors no later than March 31, the County Administrator shall submit to the Board of Supervisors a proposed balanced budget, which includes proposed revenues and expenditures.

5. <u>Budget Adoption</u>

a.) Once the County Administrator has presented the recommended budget to the Board of Supervisors, they will conduct work sessions as deemed necessary to develop a proposed budget for advertisement.

b.) The Board of Supervisors will advertise the consolidated public hearing notices at least seven days prior to the public hearing date.

c) A consolidated public hearing on the budget, ordinance changes, and tax rates, shall be held to obtain citizen comments.

d.) No earlier than one week following the public hearing, the Board of Supervisors shall adopt a balanced budget. Note: Schools budget must be adopted by May 1 every year.

e) The budget is legally enacted through passage of an appropriations resolution for all governmental and proprietary fund types which places legal restrictions on expenditures at the function level or category level. This occurs no later than June 30.

Note: King George County Schools' budget is legally adopted and appropriated by category. Not as a total.

<u>6. Budgetary Controls</u>

a) For all funds except School Funds, the level of control (level at which expenditures may not exceed budget) is at the function level as established by the Commonwealth of Virginia Auditor of Public Accounts.

b) For School Funds, the level of control is the activity level as established by the Commonwealth of Virginia Department of Education.

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 a more detailed line-item budget.

d) Included with the budget resolutions is approval for the re-appropriation of all encumbered balances and capital project unencumbered balances at fiscal year-end.

e) The Adopted Budget Document is forwarded to the GFOA within 90 days of budget adoption to apply for the Distinguished Budget Award program.

f) The adopted budget is also placed on the County's website.

7. <u>Budget Amendments</u>

a) The County Administrator is authorized to approve the transfer of up to $25,000 from or within any County operating budget, excluding School funds, with the following requiring approval of the Board of Supervisors:

i. Transfer(s) for any one item, function or project that exceeds $25,000
ii. All transfers involving reserves
iii. All revenue transfers
iv. Any transfers between funds, regardless of amount

b) The County Administrator is authorized to approve transfers for Capital Projects between line items as long as it is within the same project in which funds were appropriate by the Board of Supervisors (regardless of amount).

Transfers between capital projects must be approved by the Board of Supervisors, regardless of amount.

c) The School Superintendent is authorized to approve transfers within any School Category, with exception to the following requiring approval of the School Board and the Board of Supervisors:

i. All transfers involving reserves or contingency
ii All revenue transfers regardless of amount
iii Transfers between categories, regardless of amount

d) Per the Code of Virginia, any additional appropriation which increases the total budget by more than $500,000 or 1% of the total budget is required to be advertised for a public hearing at least seven days prior to the Board of Supervisors approval.

e) All transfers requiring Board of Supervisors' approval that have been initiated from the Schools, Library, or Social Services, must have the School Board, Library Board or Social Services Board, as applicable, approve the transfer prior to presentation to the Board of Supervisors.

f) If deficits appear to be forthcoming within a fiscal year, recommended spending reductions will be proposed by the County Administrator during the fiscal year in order to sufficiently offset the deficit. (This may include the Schools, Library, Social Services, Commissions, etc.)

8. <u>Budgetary Accounting</u>

a) Budgets are adopted on a basis consistent with GAAP for all governmental funds.

All budget data in the Comprehensive Annual Financial Report represents the revised budget (adopted budget, re-appropriation and budget transfers)

Fund Balance Policy – General Fund (7/27/11)

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 rating agencies and bond insurance firms.

b) Sound financial management principles include the establishment of designated and undesignated fund balances sufficient to maintain required cash flows and provide reserve for unanticipated expenditures, revenue shortfalls and other specific uses.

c) Fund Balance levels that fall below recommended levels can result in the need for costly short-term financings, reduce interest earnings and, as such, can increase the cost of providing service to tax payers

d) This policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as required by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

2. Governing Standards

a) Governmental Accounting Standards Board (GASB)

b) Generally Accepted Accounting Principles (GAAP)

c) Government Financial Officers Association (GFOA)

d) Nationally recognized Rating Agencies (i.e. Standard & Poor's, Moody's Investors Service, Fitch Ratings)

3. Planning and Performance

a) Compliance with the fund balance policy will be reviewed in conjunction with the budget process, audit process and upon changes made to the budget throughout the fiscal year.

4. General Fund (GASB 54)

I. Components of Fund Balance

Fund balance is the difference between the assets and liabilities reported in a governmental fund. The following five fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority; for all funds except the general fund, assigned fund balance is the residual fund balance classification;

Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

This fund balance exists to provide resources for 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, to meet desired reserve levels in order to maximize the County's standing in the credit markets and to maximize the County's credit rating(s), to maximize interest earnings thereby reducing the stress on other key General Government revenues.

II. Committed Fund Balance Policy

The Board of Supervisors is the County's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board of Supervisors.

Examples: Outstanding encumbrances (i.e., purchase orders, contracts and other commitments) at fiscal year-end.

Inventory balances at fiscal year-end which represent amounts invested in inventory and not available for appropriation.

Advances to other funds at fiscal year-end which are currently not available for appropriation.

All appropriated funds are committed.

III. Revenue Stabilization Fund Policy (Committed)

The County maintains a Revenue Stabilization Fund that is designed to provide funding for unplanned cash-flow fluctuations or financial emergencies. In the event of an unplanned cash-flow fluctuation (i.e. revenue shortfall, expenditure increase) or financial emergency, the County intends to utilize the Revenue Stabilization Fund as the primary source of funding from reserves versus the unassigned fund balance. (See Stabilization Policy)

Should the Revenue Stabilization Fund be depleted in the face of a severe financial emergency, the County may, from time to time, reduce the unassigned Fund Balance below the 15% policy for the purposes of a declared fiscal emergency; financial opportunity to enhance the well-being of King George County; or, other such global purpose as to protect the long-term fiscal security of King George County. In such circumstances, after legally available fund balances have been calculated as part of closing-out a fiscal year, the Board of Supervisors will adopt a plan as part of the following year's budget process to restore the legally available fund balances to the policy level within 24 months from the date of the budget adoption.

IV. Assigned Fund Balance Policy

The Board of Supervisors has authorized the County Administrator as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Examples: Re-appropriation of unencumbered balances to continue existing projects which shall equal the continuing project balance for which the revenue source was recorded prior to fiscal year end.

Funding of subsequent fiscal year's budget shall be equal the use of fund balance appropriated in the adopted budget.

Reservations for funding of planned projects in a future period to reduce the financial demands placed upon a subsequent budget. These specific designations are to indicate tentative plans for financial resource utilization in a future period.

Note: All funds in the Capital Improvement Fund are Assigned.

V. Minimum Unassigned Fund Balance Policy

The County will maintain an unassigned fund balance in the general fund equal to 15% of the total operating budget of the County. The Total Operating Budget of the County shall include the General Fund, Inter-fund Transfers (so long as they are not double counted), the School Fund(s), and operating revenues in the Capital Projects Fund.

The County considers a balance of less than 10% to be cause for concern, barring unusual or deliberate circumstances. Balances shall be at such a level that the County will not incur costly short-term borrowing as a means to fund operations (see Debt Policy).

VI. Unassigned Fund Balance in excess of the Minimum

General Fund, unassigned fund balance in excess of a 15% policy will be available for appropriation by the Board of Supervisors, as needed. These funds should be used for non-recurring expenditures, one-time capital expenditures or economic development-related expenditures.

VII. Resource Flow Policy

When fund balance resources are available for a specific purpose in more than one classification, it is the County's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Revenue Stabilization Fund Policy (7/27/11)

1. General

a) This policy is to establish the formation and use of a stabilization fund that shall be used to reduce and/or eliminate spikes in tax increases, other operating rate increase or minimize effects of a decrease in revenues for future planning.

b) This stabilization fund shall be termed Revenue Stabilization Fund and this policy shall govern use of these funds.

c) The Revenue Stabilization Fund shall be utilized in a manner to give maximum benefit to the residents of King George County, while likewise ensuring that day to day operations of the County, as well as, King George County Public Schools are funded and cared for. The intent by this policy is to establish guidance for all King George County Boards of Supervisors and officials towards the use of the Revenue Stabilization Fund. The use of a formalized financial policy has been standard operating procedure for some governments for decades. It is a feature that nationally recognized rating agencies deem an enhancement to financial management of localities.

d) Existence of a stabilization fund provides a measure of financial flexibility to react to budget shortfalls in a timely manner while minimizing the need for short-run increases in taxes or other fees. In addition, use of this fund is not viewed as a credit weakness since that is its sole purpose, unlike use of General Fund Undesignated Fund balance.

2. Governing Financial Standards

a) Governmental Accounting Standards Board (GASB).

b) Generally Accepted Accounting Principles (GAAP).

c) Government Financial Officers Association (GFOA)

d) Financial Accounting Standards Board (FASB).

e) Nationally recognized Rating Agencies (i.e. Standard & Poor's, Moody's Investors Service, Fitch Ratings)

f) Code of Virginia.

3. Planning and Performance

a) In preparing the annual budget, the County will reserve in a separate fund the amount equal to one penny ($.01) on the real estate taxes or the amount necessary to maintain the stabilization fund at 3% of the adopted General Government budgeted operating revenues which shall include the General Fund, on-going revenues in Capital Projects Fund, the School's Operating Fund, Cafeteria Fund, and any other Operating Transfers that are accounted for in the General Government Funds.

b.) At the close of each fiscal year the County will "true up" the Revenue Stabilization Fund by transferring such amounts as may be necessary to bring the balance to at least 3% of the General Governmental operating revenues, as defined in A. above, for the upcoming fiscal year**.**

4. <u>Use of Funds</u>

a) Use of the Revenue Stabilization Fund is restricted to times of severe financial distress or unplanned fluctuations in revenues or expenditures, as approved by the Board of Supervisors, such as:

1. Revenue shortfalls due to reductions in funding by the State/Federal Government;

2. Consumer or business related tax revenue shortfalls (i.e. sales tax, meals tax, BPOL) due to general economic recessions;

3. Revenue shortfalls due to severe reductions in property value assessments;

4. Loss of a major tax payer, major employer, or a general erosion of the King George County's demographics, etc.

5. Unexpected expenditures related to emergency situations such as natural disasters, severe weather related events, etc;

6. Compliance with Regulatory requirements; and,

7. Declared financial emergencies.

b) Request for use of funds must be presented by the County Administrator with a plan and timeline to replenish the reserves fund and approved by the Board of Supervisors.

Capital Improvements Plan Policy and Procedures (CIP)

1. General

a) Pursuant to 15.2-2239 of the Code of Virginia, the King George County Planning Commission shall prepare for adoption an annual Capital Improvements Program. The CIP is a plan for capital expenditures and a means of financing facilities, equipment and vehicles during the next five fiscal years.

b) A key purpose of developing a Capital Improvement Plan, in addition to adequately serving the citizens of King George County, is to maintain all assets at a level to protect the County's capital investments and to minimize future maintenance and replacement costs for the tax payers.

c) To be included in the County's Capital Improvement Plan, items must be in alignment with the County's strategic plan, have a unit cost greater than $50,000 and a life span of more than five years.

2. Governing Standards

a) Governmental Accounting Standards Board (GASB)

b) Generally Accepted Accounting Principles (GAAP)

c) Government Financial Officers Association (GFOA)

d) Nationally recognized Rating Agencies (i.e. Standard & Poor's, Moody's Investors Service, Fitch Ratings)

3. Planning and Performance

a.) The County will develop a five-year Capital Improvement Plan annually.

b.) The first year of this plan will be adopted and appropriated by the Board of Supervisors. This will be deemed the County's Capital Budget for that fiscal year. (See preparation and adoption below)

c.) The capital improvements budget will be coordinated with development of the operating budget in order to include future operating costs associated with new capital improvements/projects.

d.) Major or multi-year projects may be approved over several years. The first year's approval will be for engineering or any costs related to performing an assessment to determine estimated costs and needs to complete the project. The second year's approval will be design and some construction, depending on funding and time to complete. Remaining costs will be allocated in the capital budgets based on estimated time to complete and available funding.

4. Financing

a.) Funding of capital projects and any debt related to capital projects will come from the Capital Improvements Fund Revenues (currently includes landfill revenues) revenues. The Board of Supervisors will approve additional sources should the capital improvement fund revenues be inadequate, etc.

b.) Use of Landfill revenue is summarized as follows: (See Landfill Revenue Use Policy for details)

i.) Funding for debt service – the total amount of debt service (principal plus interest) for capital projects previously or currently approved.

ii.) Funding for capital projects – the remaining amount of landfill revenues, once total debt service has been deducted, is available cash for capital projects.

c.) Cash funding will be the preferred funding strategy for vehicles budgeted in the CIP.

d.) Debt may be issued to fund projects as approved by the Board of Supervisors. County Staff, along with its Financial Advisor, will determine the most practical solution that's best for tax payers. (See Debt Policy)

e.) Interest earnings from bond proceeds, fund balance, cash, investment accounts, etc. shall be dedicated to one time capital needs as approved by the Board of Supervisors. Note: Interest earned on bond proceeds for School projects must be spent on School capital needs.

5. CIP Preparation

a) The Director of Finance, in conjunction with the County Administrator, Community Development Director and Board of Supervisors will develop a CIP budget schedule.

b) The Finance Department will distribute to all departments the CIP request packet by November 1 or according to the approved CIP schedule. (Includes Schools and Service Authority)

c) All departments will submit their CIP requests back to the Director of Finance no later than December 1 or according to the approved CIP schedule. Included in the CIP request will be the operating impact of the proposed project, including personnel, operating expenditures and funding sources, etc.

d) Finance will review budget requests and submit to the County Administrator for review and budget hearings with Department Heads.

e) County Administrator will develop a recommended budget and submit to the Community Development Director for review by the Planning Commission by December 15th or according to the CIP schedule.

f) The Community Development Director will submit the County Administrator's recommended budget to the Planning commission for review.

6. CIP Adoption

a) The Planning Commission will review all CIP requests, consult with the County Administrator, Department Heads, and the general public; prioritize projects, make recommendations with regard to amount and year to be funded, and conduct public hearings as it deems necessary.

b) The Planning Commission will then submit the recommended CIP to the County Administrator no later than February 15th or according to the CIP schedule.

c) The County Administrator will review the CIP, make recommendations and submit CIP to the Board of Supervisors in conjunction with the presentation of the budget (if practicable) between March 1^{st} and March 15^{th}.

d) The Board of Supervisors will conduct work sessions, as deemed necessary, and adopt the annual Capital Improvements Program prior to April 1st or according to the CIP budget schedule.

Landfill Revenue Use Policy

1. General

a) This policy is adopted in an effort to prudently and wisely utilize County landfill revenues, which are herein defined as those lease or host fees paid under contract by the landfill operator to the County, for the use of the land upon which the landfill is situated, as well as the landfill license, both of which are owned by the County of King George.

b) The following policy shall govern the use revenues received from the commercial landfill now managed by Waste Management under contract with the King George County Board of Supervisors.

c) Landfill funds are to be utilized in a manner to give maximum benefit to the residents of King George County, while likewise ensuring that capital needs are properly funded and cared for. The intent by this policy is to establish guidance for all King George County Boards of Supervisors and officials towards the use of Landfill Revenue Funds.

d) This policy shall also apply to any minimum payments made in lieu of those host or lease fees, should that occur.

e) There are, in addition to lease or host fees, certain other contractual obligations between the Lessor and Lessee. These additional requirements shall be utilized by the County as governed by the contract as it is in effect at the time of any such use.

2. Governing Financial Standards

a) Governmental Accounting Standards Board (GASB)

b) Generally Accepted Accounting Principles (GAAP)

c) Government Financial Officers Association (GFOA)

d) Financial Accounting Standards Board (FASB)

e) Auditor of Public Accounts of Commonwealth of Virginia (APA)

f) Code of Virginia.

3.) Planning and Performance

a.) Landfill revenue funds shall be initially accounted for in the Capital Improvements Fund. An annual revenue budget will be prepared in conjunction with the County's operating budget.

b) The County will develop a five-year Capital Improvement Plan annually. The first year of this plan will be adopted and appropriated by the Board of Supervisors. This will be deemed the County's Capital Budget for the fiscal year. (See Capital Improvement Policy)

c) As part of the budget cycle, a debt service budget is also develop that incorporates all currently outstanding debt as well as any anticipated new debt issues for approved capital projects.

4. Use of Funds

a.) The primary use of landfill revenue shall be funding any outstanding debt service for Schools, General Government, or other approved capital projects, as determined by the Board of Supervisors.

b.) The secondary use of landfill revenue shall be for direct expenditure for those capital needs approved by the Board in the current year capital projects budget (i.e. cash funded).

c.) Any funds remaining from these uses for the current fiscal year shall be left remaining in the County's Capital Improvements Fund, as Assigned.

d.) Any uses outside of this policy must be approved by the Board of Supervisors.

Fund Balance Policy - Capital Improvements Fund

1. General

a) In an effort to address long-term needs of King George County, the County desires to follow sound financial management principles including guidelines and criteria established by the National Recognized Rating Agencies, bond insurance firms, and the credit markets in general.

b) Sound financial management principles include the establishment of designated and undesignated fund balances sufficient to maintain required cash flows, provide reserve for unanticipated capital expenditures, and provide funding for future capital needs.

2. Standards

a) Governmental Accounting Standards Board (GASB)

b) Generally Accepted Accounting Principles (GAAP)

c) Government Financial Officers Association (GFOA)

d) Nationally recognized Rating Agencies (i.e. Standard & Poor's, Moody's Investors Service, Fitch Ratings).

3. Planning and Performance

Compliance with the Capital Improvement Fund balance policy will be reviewed in conjunction with the budget process, audit process and upon changes made to the budget throughout the fiscal year.

4.) Capital Fund Balance

a.) Reservations/Committed per GASB.

i. Outstanding encumbrances (i.e., purchase orders, contracts and other commitments) at fiscal year-end.

ii. Inventory balances at fiscal year-end which represent amounts invested in inventory and not available for appropriation.

iii. Advances to other funds at fiscal year-end which are currently not available for appropriation.

b) Unreserved – designated/Assigned fund balance.

i. Reservations for funding of planned projects in a future period to reduce financial demands placed upon subsequent budgets. These specific designations are to indicate tentative plans for financial resource utilization in a future period.

ii. For so long as the King George Wireless Authority's 2008 Promissory Note is outstanding, a separate designation of at least $2 million will be maintained as is required in the financing documents for this financing. When this Note is paid off this $2 million will be available for appropriation for one-time needs.

c) Unreserved – undesignated fund balance

i. Balance shall be at all times at least equal to the maximum projected expenditures for existing annual debt service or $2,000,000, whichever is greater.

Debt Policy

1. General

a) A debt policy addresses the level of indebtedness the County can reasonably expect to incur without jeopardizing its existing financial position and to ensure the efficient and effective operation of the County.

b) A debt policy also addresses the purposes for the types of debt that will be issued.

c) The debt policy is to be used in conjunction with the Adopted Budget, the Capital Improvements Program (CIP) and other financial policies.

2. Standards

a) National Federation of Municipal Analysts

b) Government Accounting Standards Board

c) Government Financial Officers Association (GFOA)

d) Nationally recognized Rating Agencies (i.e. Standard & Poor’s, Moody’s Investors Service, Fitch Ratings).

e) Internal Revenue Service

3. Planning and Performances

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) The County will prepare and adopt annually a Five Year Capital Improvements Program (CIP) to identify and establish an orderly plan to meet the County's infrastructure needs with all debt-related projects and the debt service impact upon operations identified.

e) The County, with the assistance of the County’s Financial Advisor, will analyze and monitor outstanding debt for refunding or restructuring opportunities on an on-going basis.

4. Issuance Guidelines

a) The County will not use short-term borrowing to finance operating needs, except in instances described under Revenue Anticipation Notes.

b) Long-term debt will be used 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 through debt issuance will have analysis performed for review of tax impact and future operating costs associated with the project and debt issuance.

e) At a minimum, all issuances of Debt require approval and appropriation of the proceeds by the Board of Supervisors with additional approvals, if applicable, as noted in Sections 6 through 10.

5. Debt Capacity and Affordability

a) County staff, in concert with the County's Financial Advisor, will annually perform a Debt Capacity and Debt Affordability analysis as a means of ensuring that the County does not exceed its ability to service current and potential future debt requirements. These analyses will verify that the County is projected to maintain debt ratios within the policy guidelines noted below. The Debt Capacity and Debt Affordability analyses will be performed annually in concert with the preparation of the Budget and Multi-Year Capital Improvement Plan.

b) The County will maintain the following debt key debt ratios within the levels described below. Maintaining debt ratios within these levels will help ensure that the County maintains its financial strength and flexibility and maximizes its Credit Rating which will, in turn, keep borrowing costs as low as possible.

i) **Tax-Supported Debt as a Percentage of Assessed Value**

The County's tax supported debt versus the total assessed value in the County shall not exceed 3.5% during the five year projection period.

This ratio indicates the relationship between the County's tax supported debt and the total taxable assessed value of real and personal property in the County. This ratio is an important indicator of the County's ability to repay debt because property taxes are a major source of repayment for tax supported debt. A smaller ratio indicates a lower level of debt versus total assessed value.

ii) **Tax Supported Debt Service as a Percentage of General Government Expenditures**

The County's ratio of annual tax supported debt service payments versus total General Government operating expenditures shall not be greater than 10% to 12% during the five year projection period.

This ratio provides a measure of the County's annual financial flexibility. Debt service payments are, generally, fixed charges that must be paid regardless of the current financial / economic environment. The numerator shall include any and all debt that is not "Self Supporting" including debt that is secured by the General Obligation pledge of the County, and debt for which the County has provided its Moral Obligation or subject to appropriation pledge. The denominator shall include operating expenditures of the General Fund, operating transfers, operating expenditures of the School fund(s), and debt service, so long as inter-fund transfers are not double counted. Self Supporting debt is defined as debt that is paid entirely from a defined revenue stream without support from the General Fund.

6. Bond Anticipation Notes

a) The County may issue Bond Anticipation Notes (BANs) in expectation of General Obligation Bonds or Revenue Bonds when: cash is required in order for the financed capital project to be initiated or continued; or, when the market for long-term financing does not appear appropriate on a given date.

b) The County will issue BANs for a period not to exceed five years.

c) BANs will not be rolled over more than one additional two-year period.

7. Revenue Anticipation Notes

a) The County's Fund Balance Policy is designed to provide adequate cash flow to avoid the need for Revenue Anticipation Notes (RANs) through the establishment of designated and undesignated fund balances sufficient to maintain required cash flows and provide reserves for unanticipated expenditures, revenue shortfalls and other specific uses.

b) The County may issue RANs in an extreme emergency beyond the County's control or ability to forecast when revenues will be received subsequent to the timing of funds needed.

8. General Obligation Bonds

a) The Constitution of Virginia, Article VII, Section 10, and the Public Finance Act provide the authority for a County to issue General Obligation Debt with no limit on the amount of General Obligation debt that a County may issue.

b) The County may issue General Obligation Debt for capital projects or other properly approved projects.

c) All debt secured by the general obligation of the County must be approved by the Board of Supervisors and by a public referendum, with the exception of Virginia Public School Authority (VPSA) Bonds and State Literary Fund Loans which do not need approval by referendum.

9. Revenue Bonds

a) The County may issue Revenue Bonds to fund enterprise activities, such as water and sewer facilities, or for capital projects which will generate a defined revenue stream.

b) The bonds will include written covenants which will require that the revenue sources are sufficient to fund the debt service requirements.

c) Costs of issuance, debt service reserve funds and capitalized interest may be included in the capital project costs and thus are fully eligible for reimbursement from bond proceeds.

10. Other Debt Instruments

a) The County recognizes that there are an increasing number of financing vehicles available for debt funding capital projects including, but not limited to:

   i. Stand-Alone General Obligation Bonds;

   ii. Stand-Alone County / EDA issued Lease Revenue Bonds;

   iii. Stand-Alone County / EDA / Service Authority issued Revenue Bonds; and,

   iv. Selected Pool Borrowing Programs including the Virginia Resources Authority and the Virginia Public School Authority.

   In addition, the County recognizes that there are a variety of methods which with to issue debt including:

   i. Competitive Public Sales;

   ii. Negotiated Public Sales;

   iii. Competitively Bid Private Placements; amongst others.

   As such, the County, working with its Financial Advisor, will analyze all of the available debt instruments and issuance methods available to the County with the goal of selecting the instrument and method which provides the County with: the lowest all-in cost of funds (including all costs of issuance and underwriter's compensation); the greatest ability to refinance / restructure in the future; and, the greatest amount of control over the timing, terms and conditions, and expenses.

b) Generally, the County prefers to utilize traditional fixed rate debt instruments to finance projects on a long-term basis as they provide cost-effective financing, predictable cash-flows, and minimal risk. Should the County desire to entertain the use of longer-term variable rate debt in an amount above $2 million or the use of derivative products (i.e. Swaps) in the future, a thorough analysis of the proposed debt instrument will be prepared by the County Staff and the County's Financial Advisor and presented to the Board of Supervisors before the instrument is approved by the Board of Supervisors. In addition, the County will prepare and adopt financial policies specific to variable rate debt and derivatives before entering into longer term variable rate debt or derivative transactions.

11. Post-Issuance Compliance Procedures For Tax Advantaged Governmental Bonds (2/29/12)

The Internal Revenue Service (the "IRS") Tax Exempt Bonds branch has announced that it will expand its efforts to ascertain compliance with the IRS regulations governing post-issuance requirements for tax advantaged bonds issued by local governments. In order to demonstrate post-issuance compliance it is important for local governments to maintain complete records of compliance with IRS rules governing actions taken after issuance of bonds. Actions for which records should be kept include investment and expenditure of bond proceeds and ownership and use of bond-financed facilities.

The following information and procedures are designed to assure post-issuance compliance with IRS rules governing the tax exempt status of interest on or the tax advantaged status of a particular issue of bonds. The issuer should maintain a file for each issue of bonds, note or similar obligations (such file may include electronic storage of records). This form should be updated annually (in a cumulative fashion without deleting information from previous years) and retained in such file until at least three years after the bonds, and any refunding bonds, are paid in full.

Name of Issuer:

Name of Bond Issue:

Date of Bond Issue:

Contact Information for Persons Responsible for Maintaining Records:

Director of Finance
County of King George
10459 Courthouse Drive, Suite 201
King George, VA 22485
(540) 775-1657

Current County Finance Director:

Name of Finance Director

E-mail address:

Length of Record Retention Period: _______ __, _____ (month, day, year)

(Records, including bond transcript, should be kept at least for the life of the bond issue and any refunding bonds plus three years; accordingly records will be kept through the date shown above.)

Issuer Contact: (Responsible for providing information below, except as otherwise indicated)

Director of Finance
County of King George
10459 Courthouse Drive, Suite 201
King George, VA 22485
(540) 775-1657

Current County Finance Director:

Name of Finance Director

E-mail address:

Escrow Agent Contact (if applicable): (Responsible for providing information in 3(a), 3(b) and 3(f) below)

Trustee Contact Name & Address (if applicable):

Paying Agent Contact (if applicable):

Financial Advisor Contact: (Responsible for providing information in 3(g))

Name
Title
Company Name
Company Address
Company Phone Number

Information to be Retained: The following information will be retained in the above-described file.

1. Summary of Use of Bond Proceeds:

(This should be a cumulative summary incorporating information from prior reports.)

Date of Expenditure	**Amount**	**Purpose**	**Payee** (or vendor if reimbursement)

Receipts/requisitions/invoices or other evidence of payment (including expenditure reimbursements) will be retained by the locality for the record retention period described above.

[Describe any reallocation of bond proceeds necessary to comply with private use restrictions.]

2. Use of Project:

(Confirm that all bond-financed facilities are owned by the locality or other state or local government entity. Describe all leases, conveyances, easements, management contracts or other agreements entered into subsequent to bond closing with respect to land or facilities financed with bond proceeds. Any agreement that gives a non-governmental user any right or "special legal entitlement" to use or control the use of bond-financed facilities should be described here. Please consult with bond counsel if there are questions.)

3. Investment of Bond Proceeds

(a) Amount remaining in Project Fund as of _________:

(b) Description of investments in each fund and investment earnings for each fund

(as of __________):

(Include: (i) the purchase date;

(ii) the purchase price;

(iii) the accrued interest due on the purchase date;

(iv) the face amount;

(v) the interest payment dates;

(vi) the coupon rate;

(vii) the maturity, sale or disposition date;

(viii) the amount received at maturity or the sale or disposition price; and

(ix) the accrued interest due on the sale or disposition date.

(c) Yield on each Rebatable Fund (as of _________):

Project Fund:

Yield Restriction Requirements - Examine nonarbitrage/tax certificate or agreement and note when temporary period for investment of bond proceeds without yield restriction expires. Consult with trustee and bond counsel two months prior to deadline to insure yield restriction, if any required, is put in place.

(d) Rebate Calculations: (Identify consultant engaged to calculate any rebate liability and show any rebate liability if calculated. Rebate liability must be calculated at 5 year intervals at a minimum.)

Records for computation of bond yield, rebate and yield reduction payments, Form 8038-T, Form 8038-R any other applicable Form 8038 series returns.

Exception to rebate requirements - Indicate whether nonarbitrage/tax certificate or agreement provides for:

a. Small issuer exception to rebate requirement, or

b. Spending exceptions to rebate requirements. If spending exception applies, document expenditure of proceeds accordingly.

(e) Filing of Form 8038T (Confirm filing of Form 8038T and payment of rebate liability or indicate that filing/payment is not required.)

(f) Confirm that records showing fund balances, investment earnings and yield on investments have been retained for the current year and all prior years.

(g) Describe all investment contracts (GICs, swaps, caps) with respect to bond proceeds including:

Copy of GIC or other agreement

Amount actually paid by the issuer and any administrative costs paid by the issuer:

For each bid, the name of the person and entity submitting the bid, the time and date of bid and bid results:

Copy of the bid solicitation form (if the terms of the GIC deviated from the bid solicitation, an explanation of the deviation)

Records for investment of bond proceeds related to guaranteed investment contracts, bond insurance contracts, financial derivatives (if applicable)

4. Reissuance (Describe any amendments to the bonds or bond documents or any agreements entered into affecting the use of proceeds or repayment of the bonds or the security for the bonds.)

5. Form of maintaining bond records

Records shall be kept in paper form or electronic form, or both, as feasible.

6. Copies of the following shall be kept (if applicable):

a. Audited financial statements
b. Any election of accounting methodology, etc (these usually are not made)
c. Appraisals or feasibility studies for bond-financed property
d. Documents related to government grants association with the bond-financed

project

e. Publications, brochures and newspaper articles for the bond financing (if any exist)

f. Correspondence, including e-mails, related to bond financings

g. Reports of any prior IRS examinations of the entity or any of its bond financings

7. Training

The above-named issuer contact person is expected to attend available training, seminars and conferences related to post-issuance compliance requirements applicable to issuers of tax-exempt and tax-advantaged bonds, and to consult with bond counsel as necessary. If non-compliance or potential non-compliance is detected, the contact person will take steps as soon as possible to timely prevent, resolve and/or correct such noncompliance or, if necessary, investigate the feasibility of participating in the IRS Voluntary Closing Agreement Program, after consultation with bond counsel.

This form updated on: ______________________

By: _______________________

[signature]

Name: Director of Finance
Title: Finance Director

Investment Policy

1. General

a) In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the policy of the County that all investable balances be invested with the same care, skill, prudence and diligence that a prudent and knowledgeable person would exercise when undertaking an enterprise of like character and aims.

b) It shall be the policy of the County that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia, to include those established by the entities stated below.

c) Wherever these objectives and guidelines conflict with the provisions of the Virginia Code on investment of public Funds, Sections 2.1-327, et seq., 1950, as amended, the most conservative shall apply, and such Virginia Code Provisions shall never be violated.

2. Standards

a) Governmental Accounting Standards Board (GASB).

b) Investment Code of Virginia

c) Guidelines established by the State Treasury Board

d) Nationally recognized Rating Agencies (i.e. Standard & Poor's, Moody's Investors Service, Fitch Ratings)

3. Investment Objectives

The primary investment objectives, in order of priority, shall be as follows:

a) Safety. The safeguarding of principal shall be the foremost objective of the investment program, and other objectives shall be subordinated to the attainment of this objective.

b) Liquidity. The investment portfolio shall be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operational requirements either known or which might be reasonably anticipated.

c) Return on Investment. The investment portfolio shall be managed with the objective of obtaining no worse than a market rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow patterns of the County.

4. Allowable Investments and Quality

The following investment types and quality levels are approved for use by the County in the investment of its public funds.

a) U.S. Treasury Bills, Notes, Bonds and other direct obligations of the United States Government.

b) Obligations of Agencies of the Federal Government, including but not limited to, the Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporation, and Student Loan Marketing Association.

c) Obligations of the Commonwealth of Virginia and its local government and public bodies, provided such obligations have a debt rating of at least "AA" or equivalent by Moody's and/or Standard & Poor's.

d) Repurchase Agreements executed through Federal Reserve Member Banks or Primary Dealers in U.S. Government securities, and collateralized by Treasury or Agency obligations the market value of which is at least 102% of the purchase price of the repo.

e) Certificates of deposit or other deposits of national banks located within the Commonwealth and state-chartered banks under Commonwealth supervision provided such deposits are insured or collateralized as provided by the Virginia Security for Public Deposits Act.

f) U.S. dollar denominated Bankers' acceptances issued by a domestic bank or a foreign bank with an agency domiciled in the U.S. and rated by Thomson Bankwatchat least B/C (issuing bank) and (country of origin). Not more than 40% of the total funds available for investment may be invested in bankers' acceptances.

g) U.S. dollar denominated Commercial Paper issued by an entity incorporated in the U.S. and rated at least A-1 by Standard & Poor Corp. and P-1 by Moody's Investors Service so long as the issuing entity carries a long-term rating of A or better by Standard & Poor's and A2 or better by Moody's Investors Service. Not more than 35% of the total funds available for investment may be invested in commercial paper, and not more than 5% in the obligations of any one issuer.

h) Money Market Mutual Funds which trade on a constant net asset value and which invest solely in securities otherwise eligible for investment under these guidelines.

5. Maturity Restrictions

It is recognized that, prior to maturity date, the market value of securities in the County's portfolio may fluctuate due to changes in market conditions. In view of this and the County's primary investment objectives of liquidity and preservation of principal, every effort shall be made to mange investment maturities to precede or coincide with the expected need for funds.

Accordingly, the requirements established by the Code of Virginia and State Treasury Board guidelines are further restricted as follows:

a) Funds shall be invested at all times in keeping with the seasonal pattern of the County's cash balances, as well as any other special factors or needs, in order to assure the availability of funds on a timely and liquid basis. Cash flow projections will be monitored and updated on an ongoing basis by the County and communicated regularly to the investment managers.

b) A minimum of 10% of the portfolio must be invested in securities maturing within 30 days.

c) A minimum of 50% of the portfolio must be invested in securities maturing within 24 months.

d) Transactions in options, futures, options on futures, margin buying and commodities are prohibited.

e) Any other security not specifically authorized in this document is expressly prohibited.

6. Additional Requirements

a) All securities purchased for the County shall be held by the County or by the County's designated custodian. If held by a custodian, the securities must be in the County's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the County. Further, if held by a custodian, the custodian must be a third party, not a counter party (buyer or seller) to the transaction.

b) The County shall establish a system of internal controls which shall be documented and reviewed with internal and independent auditors and meet the requirements of the Governmental Accounting Standards Board (GASB). These controls shall be designed to prevent losses of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

c) A review of all investments and investment results shall be presented by the Investment managers to the County Administrator, Finance Director and County Treasurer, on a quarterly basis or as required.

d) A list of all individuals authorized to transfer funds or otherwise conduct investment transactions on behalf of the County shall be maintained and communicated to all affected parties.

e) Any modifications to this policy shall require the approval of the King George County Board of Supervisors and County Treasurer.

f) Bond documents, investment records, bank statements, etc. shall be kept for the life of the bond issue, plus 3 years.