

# The Town of Lovettsville, Virginia

## Financial Policies



**Adopted: October 10, 2019**

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## **Introduction**

The Town of Lovettsville has an important responsibility to carefully account for public funds, to manage municipal finances wisely, and to plan and provide for the adequate funding of services desired by the public and as required by laws, rules, or regulations, including the provision and maintenance of public facilities and improvements. The financial goals and policies set forth by Town Council and summarized in this document are intended to establish guidelines for the continued strength and stability of the Town of Lovettsville.

## **Accounting, Auditing, Financial Reporting**

- The Town will establish and maintain the highest accounting standards that conform with uniform financial reporting in Virginia and Generally Accepted Accounting Principles (GAAP) for governmental entities as promoted by the Governmental Accounting Standards Board (GASB.)
- The Town will engage an independent accounting firm to perform annual financial and compliance audits according to generally accepted government auditing standards.
- The independent accounting firm will issue a public opinion about the Town's financial reporting, which will be incorporated into the Town's annual financial report (AFR).

## **Revenue Management**

### General Fund

- The Town will seek to maintain a diversified and stable revenue structure in an effort to prevent reliance on any one revenue source and to limit cash flow volatility.
- The Town will use an objective, analytical approach to estimate its annual revenue.
- The Town may institute user fees and charges for specialized programs and services where practicable. Rates will be established to cover operational costs, overhead costs, and debt service costs. The Town will periodically review user fees against related expenses to determine if coverage of direct and indirect expenses is being accomplished.
- The Town will follow an appropriately aggressive policy of collecting revenue, with a goal of achieving a collection rate of 100%.
- The Town will aggressively pursue external funding sources to fund/support capital projects. Before applying for or accepting external funding, the Town will assess the merits of a particular program as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary matter. All grant applications must be approved by the Town Manager before being submitted. Grants and donations may only be accepted by the Town Council. No grant will be accepted that will incur management and reporting costs greater than the grant amount.

### Utilities Fund

- The Town will operate a Utility Fund as a stand-alone enterprise fund that will not be subsidized by the General Fund or other funds that may be established by the Town.
- The Utility Fund will reimburse the General Fund for reasonable expenses related to overhead and administrative support costs as part of the annual budget process.
- The Town will set water and sewer rates based on the actual cost to deliver each service. The Town will periodically review the components that make up the rates and fees through a cost-of-service study for every service provided. The Town is not prohibited from establishing fair and reasonable rates that allow a differential between in-town and out-of-town customers.
- The Town will set rates to achieve a balance of income and cash flow each year with expenditures. If a deficit between current revenue and current expenses occurs, the Town will take all necessary steps to reduce and eliminate the deficit by reducing expenditures or enhancing revenues.
- The Town will set rates to cover all current costs and to allow the fund to meet all bond/loan covenant, state, and federal requirements.
- The Town will track, monitor, and report annually on the key variables of the rate model. The Town will set rates that are based on annually updated 5-year forecasts of operating and capital budgets.
- To avoid large one-time increases and to effectively maintain infrastructure, the Town shall evaluate rates regularly, through a water/sewer rate study, and increase rates, as necessary.

## **Budget Management**

### Operating Budget

- The Town will prepare the operating budget with an annual perspective.
- The budget is a plan for raising and allocating resources. The objective is to enable service delivery within available resources. Services must be delivered to residents and taxpayers at a level which will meet real needs as efficiently and effectively as possible.
- In preparing the budget, the Town will fund current expenditures with current revenues and use non-recurring revenues to offset non-recurring expenses.
- The Town will seek to finish each fiscal year with a positive unassigned fund balance and positive cash balance. Over the course of any given fiscal year, if a deficit appears likely, spending during that fiscal year will be reduced to affect positive unassigned fund and cash balances at fiscal year-end.
- The Town will seek to continuously improve the efficiency and effectiveness of its programs and employees.
- The budget will be structured so that Town Council and the general public can easily understand the relationship between revenues, expenses, and services being delivered.
- The Town Council and Town Manager will review the budget with a focus on whether existing service costs are appropriate and justified, that administrative overhead costs are reasonable, and that proposed new programs and program expansions are justified, detailed, and scrutinized.

### Capital Budget

- The Town will make all capital improvements/investments in accordance with its adopted capital improvement program (CIP).
- The Town will develop a five-year plan for capital improvements.
- The Town will coordinate development of the capital budget with the development of the operating budget. Future operating costs associated with new capital projects will be projected and included in operating budget forecasts.

### Capital Asset Reserve Fund

- The Town will establish a Capital Asset Reserve Fund (CARF) in order to fund through non-debt sources 25% of the of the Town's share of costs of capital projects approved in the five-year CIP program.
- Use of the CARF will be used first on capital assets with useful lives of 5 years or less (e.g., vehicles, equipment, etc.) and then on capital projects with useful lives of more than 5 years.
- Town Council may from time to time move funds from the Unassigned Fund Balance in excess of the Town's stated policy guideline to the CARF so long as the Town stays in compliance with the targeted Unassigned Fund Balance policy levels.

### Events Fund Budget

- The Town will prepare an Events Fund budget with an annual perspective.
- The objective is to seek to finish each fiscal year with a surplus by limiting annual expenditures to the annual Events Fund revenues.
- If during the course of the fiscal year a deficit in the Events Fund appears likely, spending during the fiscal year within the Events Fund will be reduced to ensure that the Events Fund does not operate at a deficit.
- The Events Fund budget will be structured so that Town Council and the general public can easily understand the relationship between revenues, expenses, and services being delivered.
- The Town Council will review and approve the budget with a focus on whether existing events (managed through the Events Fund) are appropriate and justified, that administrative overhead costs are reasonable, and that proposed new events and event expansions are justified, detailed, and scrutinized.

### **Cash Management**

- In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the Town Council's policy that all investable balances be invested utilizing best practices commonly accepted by political subdivisions in Virginia.
- The deposit and investment policy (as described in this section) recognizes that the Town Treasurer's responsibilities are delineated by the Code of Virginia and this policy is meant to illustrate strong fiscal management of the Town.

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- The deposit and investment policy will serve as the guideline from which all Town deposits and investments will be managed consistent with the Code of Virginia.
- The safeguarding of principal shall be the foremost objective of the investment program by mitigating credit risk and interest rate risk, with all other objectives subordinated to this objective.
- Funds shall be invested in keeping with the seasonal pattern of the Town's cash balances, as well as any other special factors or needs, in order to assure the availability of funds in a timely and liquid manner.
- The Town will, where permitted by law, pool cash from its various funds for investment purposes and will invest revenue to maximize the rate of return while maintaining a low level of risk.
- All cash balance accounts established shall be in interest earning accounts except for the primary bank account.
- All depositories will meet the standards for collateralization as set forth in the Virginia Security for Public Deposits Act or will be covered by Federal Depository Insurance (FDIC).
- At least thirty days prior to an investment maturing, the Treasurer shall update the Town Manager and Town Council on investments held, maturities, investment returns, unrealized gains (losses), and comparisons to established benchmarks.
- All Town officials involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, that could impair the ability to make impartial decisions, or that could create the appearance of a conflict of interest.

## **Reserve Funds Management**

### General Fund

- The General Fund Unassigned Fund Balance should be maintained at a minimum of 30% of total General Fund revenues.
- Use of the fund balance may be necessary from time to time to meet unexpected revenue shortfalls or financial emergencies. By policy, appropriations from, or changes to, the General Fund Unassigned Fund Balance require a majority vote of the Council. No appropriation of the fund balance that will cause the fund balance to fall below the minimum policy limit will occur without prior presentation to the Council by the Town Manager of a plan and time line for replenishing the fund balance to its minimum level within 24 months.
- Annual operating surpluses in the General Fund shall be applied first to the General Fund Unassigned Fund Balance until it is funded at the minimum required level, and then to the Capital Asset Replacement Fund, until it is funded at the minimum required level.

### Utilities Fund (UF)

- The Town will maintain in the Utilities Fund a 90-day Operations and Maintenance (O&M) Reserve to provide funds for any potential timing differences between operating revenue and operating expenses, and for unplanned expenses.

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- At the close of each fiscal year, the Utilities Fund Unrestricted Net Position, including the 90-day O&M Reserve, should be equal to no less than 75% of annual UF operating revenues, excluding availability fees.
- The Town will establish and maintain in the Utilities Fund a Repair, Renewal, and Replacement Reserve (3R) to provide funds for major repairs, replacement, or rehabilitation of system assets. The 3R Reserve will be maintained at a minimum of 30% of the accumulated depreciation of capital assets at the end of any given fiscal year.
- The Utilities Fund operating budget will include an annual emergency contingency appropriation of \$10,000, which may only be used for significant emergency repairs not included in the operating budget. Use of the emergency contingency budget requires Town Manager approval and notification to Town Council.
- Annual operating surpluses in the Utilities Fund shall be applied first to the 90-Day O&M Reserve Fund until it reaches its minimum level required, then to the Utilities Fund Repair, Renewal and Replacement Reserve Fund until it reaches its minimum level required, and third to the Unrestricted Net Position of the Utilities Fund until it achieves its minimum required level.

Events Fund

- All surplus funds generated by Events (managed in the Events Fund) will be held in an Events Fund Reserve account.
- Funds in the Events Fund Reserve account will be used only for such events managed in the Events Fund. It is the intent of Town Council that such funds in the Reserve account will be carried over to the next fiscal year and utilized for Events, as needed.
- Town Council shall approve by a majority vote withdrawals from the Events Fund Reserve account.

**Debt Management**

- The Town will not fund current operations with borrowed funds and will limit borrowing and capital leases to capital improvements, projects, or equipment that cannot be financed from current financial resources.
- The Town will repay debt related to specific projects/equipment within the expected useful life of that project/equipment.
- On an annual basis, the Town will calculate debt ratios for direct, non-revenue-based debt that is dependent on the General Fund to service that debt. Enterprise fund debt will not be included in the calculation of debt ratios if payments from the general fund to the enterprise fund are not needed to support the enterprise fund.
  - **Target debt ratio #1** - Debt service as a percentage of General Fund expenses should not exceed 15%.
  - **Target debt ratio #2** - Bonded debt of the Town shall not exceed **2.0%** of the total assessed value of taxable property within the Town limits.

**Management of Fixed (Capital) Assets**

- The Town will capitalize all fixed assets with a value greater than \$10,000 and an expected useful life of three years or more.
- The operating budget will provide for minor and preventative maintenance of fixed assets.
- The capital budget will provide for the acquisition of fixed assets and the construction (or total replacement) of physical facilities, including additions to existing facilities.
- The Town will maintain adequate insurance coverage on its fixed assets through either commercial insurance or risk pooling arrangements with other governmental entities.