

The Town of Lovettsville, Virginia

Financial Policy



Adopted June 8, 2023

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Section 1: 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.

Section 2: 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).

Section 3: Revenue Management

3.1 General Fund

- A. The Town will seek to maintain a diversified and stable revenue structure to prevent reliance on any one revenue source and to limit cash flow volatility.
- B. The Town will use an objective, analytical approach to estimate its annual revenue.
- C. 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.
- D. The Town will follow an appropriately aggressive policy of collecting revenue, with a goal of achieving a collection rate of 100%.
- E. Excluding taxes not collected by Loudoun County and where allowed, the Town shall collect taxes, fees and charges from the mortgage company of record.

3.2 General Government- Capital Fund

- A. The Town will maintain a multi-year Capital Fund in order to separate capital project revenues from operating revenues in the General Fund.
- B. The annual surpluses will rollover to the following fiscal year and will be automatically re-appropriated for the approved capital project use.
- C. 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 Council before being submitted by the Town Manager.
- D. 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.

3.3 Utilities Fund

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- A. The Town will operate a Utilities 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.
- B. Reasonable General Fund Expenses related to overhead and administrative support costs will be reimbursed by the Utilities Fund, and shown in the Operating Budgets, as approved by Town Council during the annual budget process.
- C. 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.
- D. 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.
- E. 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.
- F. The Town will track, monitor, and report annually on the key variables of the rate model developed by an independent Rate Consultant hired by the Town. The Town will set rates that are based on annually updated 5-year forecasts of Operating and Capital Budgets.
- G. 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.
- H. Similar to the General Government Capital Fund, the Utilities Fund shall separate capital project revenues, and any resulting capital project surpluses will rollover and be automatically re-appropriated for the approved capital project use.

3.4 Events Fund

- A. The Town will operate a stand-alone Events Fund.
- B. Love America, Love Winter, and Love Summer events are not intended to be developed into large economic development style events and are intended to be low-cost, town hosted and small-town family community type events. These events are to be subsidized by the General Fund on an annual basis and money will be budgeted in the Events Fund for these types of events.
- C. Mayfest and Oktoberfest are not considered subsidized events, rather they are considered stand-alone events and are expected to generate sufficient revenue to be sustainable. The Town will prepare an Events Fund budget with an annual perspective.
- D. The objective is to limit annual expenditures to the annual revenues.
- E. If during 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.
- F. The Events Fund budget will be structured so that Town Council and the public can easily understand the relationship between revenues, expenses, and services being delivered.
- G. The Town Council will review and approve the Budget with a focus on whether planned event expenditures (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. Any new expense, aspect or expansion of any event that is beyond the adopted annual line-item budget shall be approved by the Town Council.
- H. No expenditure, except as directed or approved by the Town Council, may be executed and, in any event, no expenditure shall be proper unless made by the Town Manager or their authorized designee.
- I. Individual event budgets shall be reviewed for cost reasonableness and reliability prior to approval.
- J. Event revenue and reserves shall be depleted prior to utilizing funds transferred from the General or Utilities fund.

- K. Any funds transferred from the General Fund or Utilities Fund shall be transferred back to the respective fund should event revenue and/or reserves adequately cover event expenses at the end of the fiscal year.
- L. Financial reporting shall include all expenses incurred and revenue received within the last 30 days.
- M. Revenue generating events (Oktoberfest and Mayfest) shall be audited in accordance with the same measuring period and procedures as the Town.
- N. No reporting of any event summary shall be performed without the Town's official audit results being provided.
- O. Town of Lovettsville payment card transactions shall only be issued to and executed by Town staff and the Mayor.
- P. Financial reports or any statement, whether written or verbal, which may include, but is not limited to, the financial status, surplus or deficit, and/or uncommitted fund balances shall only be provided by Town staff.
- Q. Event purchase orders and requests for reimbursement shall include the original receipt and be submitted within 30 days of the transaction.

Section 4: Budget Management

4.1 Operating Budget

- A. The Town will prepare the operating budgets with an annual perspective.
- B. 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.
- C. The Town on an annual basis will review operating account balances and, if sufficient cash is available, make a transfer into the appropriate reserve account.
- D. The Town will seek to finish each fiscal year with a positive unassigned fund balance and positive cash balance.
- E. The Town will seek to continuously improve the efficiency and effectiveness of its programs and employees.
- F. The budget will be structured so that Town Council and the public can easily understand the relationship between revenues, expenses, and services being delivered.
- G. 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.
- H. 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.
- I. The Town Manager shall propose a planned average salary adjustment rate that represents the planned cost of living adjustment (COLA) and performance salary increases, as well as other planned or unplanned salary adjustments for all employees. The average salary adjustment rate shall be set and approved by the Town Council during the annual budget process.
- J. Any proposed Cost-of-Living-Adjustment (COLA), performance and/or other planned or unplanned salary adjustment which results in a salary increase exceeding 150% of the approved average salary adjustment rate for an individual employee shall be approved by the Town Council.

4.2 Capital Budget

- A. The Town will develop a five-year plan for capital improvements which will be approved when the Annual Operating Budgets and Fee Schedule are approved.
- B. The Town will make all capital improvements/investments in accordance with its adopted Capital Improvement Program (CIP).
- C. The Capital Budget is defined as the current fiscal year in the CIP.
- D. The CIP Budget will be included in the current fiscal year Operating Budget with the development of the Operating Budget.
- E. Future operating costs and maintenance associated with new capital projects will be projected and included in the Operating Budget forecasts.
- F. The five-year plan for capital improvements (CIP) will show, in addition to capital costs, debt retirement projections for all projects funded in the CIP using debt as a source of revenue.
- G. The Town will establish a General and Utilities Committed Reserve to be used for capital projects approved in the five-year CIP that will include the Town's share plus funds from County, State/VDOT, Federal Government, and other grant funding.

4.3 Reserve Accounting

- A. Use of the Reserve funds will be used first on capital assets with useful lives of five years.
- B. Assigned/Committed funds appear in the General and Utilities Funds and are earmarked for a specific purpose.
- C. Project funding is to be accounted for in separate reserves and are maintained by the Treasurer, reference to these accounts appear in the reserve summary section of the monthly financial reports.
- D. Project funds shall be sufficient to meet the Town's share of County, State/VDOT and Federal funding requirements and should be used as a secondary funding source behind the timely used County, State/VDOT, and Federal funding.
- E. Town Council may from time to time move funds from the General Fund Unassigned Fund Balance or Utilities Unrestricted Net Position to the Assigned/Committed Reserves, so long as the Town stays in compliance with the targeted General Fund Unassigned Fund Balance and Utilities Fund Unrestricted Net Position policy levels.
- F. Managed Reserve are maintained and established for General, Utilities, and Events Funds

Section 5: Cash Management

- A. 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.
- B. 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.
- C. The deposit and investment policy will serve as the guideline by which all Town deposits and investments will be managed consistent with the Code of Virginia.
- D. 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.
- E. 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 to ensure the availability of funds in a timely and liquid manner.
- F. 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.
- G. All cash balance accounts established shall be in interest earning accounts except for the primary

bank account which is inclusive of the 60-Day Operating and Maintenance (O&M) Reserve.

- H. 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).
- I. 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.
- J. 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.

Section 6: Reserve Management

6.1 General Fund

A. Unassigned Fund Balance

- 1. The General Fund Unassigned Fund Balance shall be maintained, at a minimum, the equivalent of the previous fiscal year's annual General Fund actual operating expenditures less debt service, grant and capital expenditures.
- 2. Use of the General Fund Unassigned Fund Balance may be necessary from time to time to meet non-discretionary expenditures, financial emergencies, or natural disasters.
- 3. Appropriations from, or changes to, the General Fund Unassigned Fund Balance require a majority vote of the Council.
- 4. No appropriation of the General Fund Unassigned Fund Balance that will cause the balance to fall below the minimum policy limit will occur without prior presentation to the Council by the Town Manager of a plan and timeline for replenishing the fund balance to its minimum level within 24 months.

B. General Fund 60-Day Operating and Maintenance (O&M) Reserve

- 1. The Town shall maintain a 60-Day O&M Reserve for recurring operational and maintenance requirements in the Town's primary bank account equivalent to a minimum of funding required for 60 days of expenses.
- 2. The 60-Day O&M Reserve is adjusted on a monthly-based on an outlook of 180 days in the future.
- 3. The 60-Day O&M Reserve is maintained beyond any other minimum required reserve balance including but not limited to Unassigned Fund Balance, Debt Service, Capital Asset Replacement or Assigned/ Committed Fund Balance.
- 4. The 60-Day O&M Reserve is to be maintained by the Town Manager and use of this reserve requires Town Council approval.

C. General Fund- Debt Service Reserve

- 1. The Town shall maintain a reserve within the General Fund that is equivalent to 150% of the annual debt service requirement for any given fiscal year.

2. The purpose of the Debt Service Reserve is to ensure that funding is secured in any given fiscal year for the annual debt service requirements of the General Government.

D. Capital Asset Replacement Reserve

1. The Town shall establish and maintain a Capital Asset Replacement Reserve for the purpose of funding the capital requirements of Town facilities, vehicles, or capital improvements. The Reserve can be utilized in the Town's Capital Improvement Plan; however, the Town will strive to plan for the use of revenues for capital projects prior to relying on the use of the Reserve.
2. The Capital Asset Replacement Reserve is to have a minimum balance equivalent to 10% of the net total of depreciated capital assets as reported in the Town's Annual Financial Report.
3. Supplemental to the minimum balance required, an annual contribution to the Capital Asset Replacement Reserve shall be made in accordance with the programmed funding in the Capital Improvement Plan, unless Town Council approves the use of the existing balance of the Reserve.
4. The use of the Capital Asset Replacement Reserve requires Town Council approval, and when the Reserve balance falls below the minimum balance, the Town Manager is to develop a plan and timeline for replenishing the Reserve to its minimum level within 24 months.

E. Assigned/Committed Fund Balance – Reserves

1. The Town shall maintain planned reserves as assigned/committed fund balance of Town Council approved committed funds or grant funding for capital asset replacement and capital project that derive from other governmental agencies.
2. Annual operating surpluses in the General Fund shall be applied first to managed Reserves in the General Fund, then the Unassigned Fund Balance once all other Reserve minimum required levels are met. Any General Fund surplus shall be applied to the Reserves in the following order: 1.) 60-Day O&M, 2.) Debt Service, and 3.) Capital Asset Replacement.

6.2 Utilities Fund

The Town will establish and maintain in the Utilities Fund reserves to provide funds for any potential timing differences between operating revenue and operating expenses, asset replacement and maintenance, and for unplanned expenses as follows:

A. Utilities Fund 60-Day Operating and Maintenance (O&M) Reserve

1. The Utilities 60-Day O&M Reserve is to address any operating cash flow issues that may impact recurring operational and maintenance requirements.
2. The 60-Day O&M Reserve is adjusted on a monthly-based on an outlook of 60 days in the future.
3. The 60-Day O&M Reserve is maintained beyond any other minimum required reserve balance including but not limited to the Unrestricted Net Position, 3R Reserve, Debt Service Reserve, Frye Court Service Tax District Reserve, or Assigned/ Committed Reserve.
4. The 60-Day O&M Reserve is to be maintained by the Town Manager and use of this reserve requires Town Council approval.

B. Repair, Renewal, and Replacement (3R) Reserve

1. 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 8% of the total depreciation of capital assets at the end of any given fiscal year.
2. Supplemental to the minimum balance required, an annual contribution to the 3R Reserve shall be made in accordance with the programmed funding in the Capital Improvement Plan, unless the Town Council approves the use of the existing balance of the Reserve.
3. The use of the Capital Asset Replacement Reserve requires Town Council approval, and when the Reserve balance falls below the minimum balance, the Town Manager is to develop a plan and timeline for replenishing the Reserve to its minimum level within 24 months.

C. Utilities Fund-Debt Service Reserve

1. The Town will establish and maintain a Utilities Fund Debt Service Reserve to ensure all annual debt service requirements are met.
2. The Reserve is to equal 150% of the annual debt service requirements in any given fiscal year.

D. Frye Court Service Tax District Reserve

1. The Town will establish and maintain a Reserve of any surpluses of revenue from the Frye Court Special Tax District to be used for the maintenance, operational and capital requirements of the Frye Court Sewer Lift Station.
2. Use of this Reserve must be approved by Town Council.

E. Utilities Fund- Unrestricted Net Position

1. At the close of each fiscal year, the Utilities Fund Unrestricted Net Position shall be a minimum of 75% of annual UF operating revenues, excluding availability fees.
2. Individual Water and Sewer Availability Accounts as well as individual Water and Sewer Deposit Accounts will be maintained by the Treasurer and reported in the Reserve Fund Summary as reported as part of the monthly Financial Reports.
3. Annual operating surpluses in the Utilities Fund shall be applied first to the 60-Day O&M Reserve Fund until it reaches its minimum level required, then to the Utilities Fund Repair, Renewal, and Replacement (3R) Reserve until it reaches its minimum level required, and then to the Debt Service Reserve until it reaches its minimum level required.

6.3 Events Fund

- A. All surplus funds generated by Events (managed in the Events Fund) will be held in an Events Fund Reserve.
- B. The Events Fund Reserve account will be used only for such events managed in the Events Fund.
- C. It is the intent of Town Council that Utilities and General funds only be used in instances where revenue and reserves do not cover event expenses. As such, funds in the Reserve account will be carried over to the next fiscal year and utilized for Events only in the case that they are not used to

cover additional expenses incurred by an event during the fiscal year, as needed.

- D. Town Council shall approve by a majority vote, any withdrawals from the Events Fund Reserve account. -

Section 7: Debt Management

- A. 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.
- B. The Town will repay debt related to specific projects/equipment within the expected useful life of that project/equipment.
- C. 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.

Target debt ratio #1 - Debt service as a percentage of General Fund expenses should not exceed 15%.

Target debt ratio #2 – Debt service as a percentage of Utilities Fund expenses should not exceed 25%

Target debt ratio #3 - Bonded debt of the Town shall not exceed 2.0% of the total asset value of taxable real property within the Town limits.

Section 8: Management of Fixed (Capital) Assets

- A. The Town will capitalize all fixed assets with a value greater than \$10,000 and an expected useful life of three years or more. For capital items of \$10,000 or less, the Town will provide a line-item budget for such expenses in the General Fund and Utilities Fund operating budgets.
- B. The General Fund and Utilities Fund Operating Budgets will provide for minor and preventative maintenance of fixed assets.
- C. 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.
- D. The Town will maintain adequate insurance coverage on its fixed assets through either commercial insurance or risk pooling arrangements with other governmental entities.

LIST OF ACCOUNTS

1. Reserves

A. General Fund

- 60-Day O&M Reserve
- Debt Service Reserve
- Assigned/Committed Reserves
- Capital Asset Replacement Reserve
- Unassigned Fund Balance

B. General Government- Capital Fund

- Assigned/Committed Reserves

C. Utilities Fund

- 60-Day O&M Reserve
- Repair, Renewal & Replacement (3R) Reserve
- Debt Service Reserve
- Frye Court Service Tax District Reserve
- Assigned/ Committed Reserve
- Unrestricted Net Position

D. Event Fund

- Event Fund Reserve (inclusive of Oktoberfest and Mayfest balances)

2. Individual Accounts

A. Water Availability Accounts

B. Sewer Availability Accounts

C. Water Deposit Accounts

D. Sewer Deposit Accounts

E. Unspecified 3R Fund Accounts

F. Frye Court Special Tax District

G. Project Accounts (in accordance with active projects in the CIP)

H. Mayfest

I. Oktoberfest