BOARD OF SUPERVISORS
AUDIT COMMITTEE

JUNE 6, 2017 @ 1:30PM
BOARD CONFERENCE ROOM
(INSIDE THE BOARD MEETING ROOM)
GOOCHLAND COUNTY ADMINISTRATION BUILDING
1800 SANDY HOOK RD., GOOCHLAND, VA 23063

I. CALL TO ORDER

II. ELECTION OF OFFICERS

III. APPROVAL OF MINUTES FROM NOVEMBER 29, 2016

IV. AUDITOR COMMUNICATION FY17 AUDIT

V. ROLES/RESPONSIBILITIES OF AUDIT COMMITTEE

VI. FINANCIAL MANAGEMENT POLICIES

VII. UPCOMING MEETINGS; FEBRUARY, MAY, AUGUST AND NOVEMBER

VIII. OTHER BUSINESS

IX. ADJOURNMENT

Goochland County
Audit Committee Meeting
November 29, 2016 @ 1:30 PM
Administration Building
1800 Sandy Hook Road, Goochland VA 23063
Board Conference Room

The Goochland County Audit Committee meeting was held on November 29th at 1:30 pm in the Board Conference Room. Present were:

District 2 Supervisor Manuel Alvarez, Jr., Chairman Audit Committee
District 1 Supervisor Susan Lascolette, Vice Chairman Audit Committee

District 5 Supervisor Ken Peterson
County Administrator John Budesky
Director of Financial Services Barbara Horlacher
Assistant Director of Financial Services Kathleen Smith
School Superintendent Dr. Raley
School Finance Director Debbie White
Commissioner of Revenue Jennifer Brown
Director of Social Services Kimberly Jefferson
Supervisor for Eligibility Services Beverly Long
Mike Garber from PBMares
Kenon Thomas from PBMares

Voting members were Ms. Lascolette, Mr. Alvarez, Mr. Peterson, and Mr. Budesky.

1. Mr. Alvarez called the meeting to order. A determination of quorum was made as 4 voting members were present.

2. Ms. Lascolette made a motion to adopt the minutes of the August 16, 2016 meeting, Mr. Peterson seconded the motion, the motion was approved unanimously 4-0.

3. Mr. Garber from the county's external audit firm of PBMares began the discussion with main takeaways from the 2016 Management Letter:
    - Checks were inadvertently recorded in the wrong year. The issue was not material and suggested cross checking in the future.
    - Update current policies and procedures to comply with the new Uniform Grant Guidance 2 CFR 200 (superseded OMB Circular A-133).

    Mr. Thomas from PBMares reviewed the Information Technology and Cyber Security portions of the 2016 Management Letter:
    - Suggested improvements for controls over the information technology environment;
        i. Implement mandatory employee training
        ii. Require annual recertification for employees
        iii. Update procedures and documentation for a disaster recovery plan
    - In addition to the procedures performed in the audit, PBMares advised that Goochland County consider a deeper dive cyber audit and cyber risk assessment for FY 2017 in addition to the regular audit.

Last Mr. Garber noted the new GASB pronouncements outlined in the 2016 Management Letter that will need to be considered in the future.

Follow-up questions:

- Ms. Lascolette asked to confirm the year GASB 77 will be implemented. Mr. Garber and Mrs. Horlacher confirmed it will be in fiscal year 2017. Discussion continued regarding the presentation which is disclosure in the notes to the financial statements.
- Discussion on the impact of GASB 78. Mr. Garber said it amends GASB 68, already implemented by Goochland County, and is intended to make reporting more uniform.
- Mr. Peterson asked if there are audit findings from prior years showing up again in 2016. Mr. Garber said the 2016 Management Letter items are new. Mr. Peterson challenged the staff to ensure these items do not show up again in 2017.
- Discussion on Cyber Security. The information provided by PBMares was a helpful insight on how to do things better. Mr. Budesky noted that implementation of the Cyber Security items take time and outside resources. The county will do it’s best to complete or at the least have a plan. He also noted we do have some levels of this already, but a full risk assessment will take additional time. Discussion continued regarding the cost benefit analysis needed before moving forward. Mr. Garber confirmed that these were only suggestions. Mr. Peterson said cost benefit needs to be a consideration before moving forward.
- Dr. Raley said a disaster recovery plan would be a growth opportunity for the schools. Mrs. White said they do send emails to staff to see if they are responding appropriately.
- Mrs. Jefferson noted that Social Services has required annual training including auditing staff access, and a disaster recovery plan. This is documented and updated annually.
- Mr. Budesky said the Social Services training could be implemented across departments as it is a joint need. He also said we do have a disaster recovery plan; send files offsite, have remote locations to resume operations, laptops to enable remote work. Disaster processes are in place it’s just not a formal document.

4. Mr. Garber discussed the Report to the Board of Supervisors.
   - Briefly reviewed the required communications.
   - The Summary of Significant Accounting Estimates is the same as prior years.
   - Reviewed the audit adjustments;
     i. $25,861 from the checks recorded in the wrong year
     ii. $37,126 tax adjustment
     iii. $67,751 school board pension adjustment, balance sheet movement only

5. Discussion concerning material weakness. Mr. Garber said it would be covered in the discussion on the CAFR. He went on to say the issue is being caused largely by issues with the State of Virginia.

   Mr. Garber discussed the CAFR.
   - Opinion on the financial statements is unmodified.
   - Opinion on internal control over financial reporting is unmodified.

- Opinion on compliance for each major federal program and report on internal control over compliance;
    i. The Medical Assistance Program has a material weakness and that program is qualified.
    ii. All other major federal programs are unmodified.

Mr. Garber explained that due to the material weakness Goochland will not qualify as a low-risk auditee for an additional two years, and that Management has a corrective action in place.

- Mr. Budesky thanked Mrs. Jefferson for her assistance and diligence in the corrective action plan. Year to date there are no months that are behind, current fiscal year.
- Mrs. Jefferson noted they went from 196 to zero behind. She and Mrs. Long discussed the following:
    i. All employees now work mandatory overtime to keep delinquencies clear. They also work early and late to avoid peak time system outages.
    ii. The State's system is the major cause of the issues and they now keep a log of all system issues.
    iii. The VDSS Chief Deputy Commissioner, Mr. J.R. Simpson, emailed confirmation of the issues caused by the State's system.
    iv. They have filled all positions except for one.

6. Ms. Lascolette asked Mr. Garber if "high risk" meant more work for the auditors resulting in higher audit fees. Mr. Garber explained there is still a minimum required amount of work and the bid did not include the additional work required for high risk. Therefore, the high risk did not impact the cost to the county.

7. Mr. Peterson thanked Mrs. Jefferson for the hard work and efforts and recognized that a vast majority of the departments work is fine. Unfortunately, the finding throws the whole county into the high risk category. He also clarified only one position remained open.
    - Mrs. Jefferson thanked the Board and PBMares for their assistance. Mr. Peterson asked that she let them know if they need anything.
    - Mr. Alvarez asked if Mrs. Jefferson can provide periodic reports on their status.
    - Mrs. Jefferson asked if she could get assistance from the Board of Supervisors in contacting the state regarding unresolved system issues. The Board discussed options.
    - Mr. Garber told the Board that Goochland was the only county to approve the CAFR before submittal to the State. The Board asked if there was any way to avoid a special meeting next year. Discussion continued and concluded we would need a special meeting.

8. Mrs. Horlacher introduced the new Assistant Director of Financial Services Kathleen Smith, who is also a resident of Goochland County.

9. Mr. Alvarez adjourned the meeting.

PBMares

April 20, 2017

To the Audit Committee
County of Goochland, Virginia
P.O. Box 10
Goochland, Virginia 23063

This letter is intended to communicate certain matters related to the planned scope and timing of our audit of the County of Goochland, Virginia's (County) financial statements and compliance as of and for the year ending June 30, 2017.

Communication

Effective two-way communication between our Firm and the Audit Committee is important to understanding matters related to the audit and developing a constructive working relationship.

Your insights may assist us in understanding the County and its environment, identifying appropriate sources of audit evidence and providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate to us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing and extent of audit procedures, your suspicion or detection of fraud or abuse, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts, instances of noncompliance, or abuse that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, without our permission no partner or professional employee of PBMares, LLP is permitted to have any direct financial interest or a material indirect financial interest in a client or any affiliate of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with firm policy. In addition, our policies restrict certain non-audit services that may be provided by PBMares, LLP and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Audit Planning Process

Our audit approach places a strong emphasis on updating our understanding of how the County functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your operations. The development of a specific audit plan will begin by meeting with you and with management to update our understanding of business objectives, strategies, risks and performance.

As part of updating our understanding of the County and its environment, we will update our understanding of internal control. We will use this understanding to identify risks of material misstatement and noncompliance, which will provide us with a basis for designing and implementing responses to the assessed risks of material misstatement and noncompliance. We will also update our understanding of the users of the financial statements in order to establish an overall materiality level for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error or to instances of noncompliance, including abuse.

The Concept of Materiality in Planning and Executing the Audit

We apply the concept of materiality in both planning and performing the audit, evaluating the effect of identified misstatements or noncompliance on the audit and the effect of uncorrected misstatements, if any, on the financial statements, forming the opinion in our report on the financial statements, and determining or reporting in accordance with *Government Auditing Standards* and other compliance reporting requirements. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. We establish performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly trivial. At the end of the audit, we will inform you of all individual uncorrected misstatements aggregated by us in connection with our evaluation of our audit test results.

Our Approach to Internal Control and Compliance Relevant to the Audit

Our audit of the financial statements, including compliance, will include updating our understanding of internal control sufficient to plan the audit and determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. Our review and understanding of the County's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

We will issue reports on internal control related to the financial statements and major programs. These reports describe the scope of testing of internal control and the results of our tests of internal control. Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States, the Single Audit Act; *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance); the U.S. Office of Management and Budget's (OMB) Compliance Supplement; and the *Specifications for Audits of Counties, Cities, and Towns*, provided by the Auditor of Public Accounts for the Commonwealth of Virginia.

We will issue reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance that could have a material effect on the financial statements and any noncompliance that could have a direct and material effect on each major program. Our reports on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with the requirements of the standards and specifications identified above.

Timing of the Audit

We have scheduled preliminary audit field work the week of April 3, 2017, with final field work commencing in October 2017. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the County of Goochland, Virginia.

This communication is intended solely for the information and use of the Board of Supervisors and is not intended to be, and should not be, used by anyone other than this specified party.

Sincerely,

PBMares, LLP

Betsy L. Hedrick

Betsy L. Hedrick, Partner

BLH/sae

Financial Management Policies

GOOCHLAND COUNTY
VIRGINIA

Adopted: November 6, 2013
Amended: August 5, 2014
Amended: Month DD, 2017

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FINANCIAL MANAGEMENT POLICIES - OBJECTIVES

The financial management policies are the guidelines and goals that will influence and guide the financial management practice of Goochland County. Financial policies that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Effective financial management policies:

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

To these ends, the following financial management policies are presented.

OPERATING BUDGET POLICIES

1. The County will develop the annual Operating Budget in conjunction with a stated program of performance objectives and measures with which to gauge progress toward meeting those objectives.

2. To enhance financial planning, the County will prepare an annual budget with a second year of projections of general fund revenues and expenditures. Further, long range forecasts will be included for years three through five which consider the impact of projects in the Capital Improvement Program.

3. The Board of Supervisors will adopt an annual balanced budget. A balanced budget is a budget with total expenditures equal to total revenues, including use of fund balance.

4. One-time or other special revenues will not be used to finance continuing County operations but instead will be used for funding items of a non-recurring nature.

5. Budget Monitoring: the monitoring of revenues and expenditures is an ongoing process. During the fiscal year, a quarterly update of general fund revenues and expenditures will be provided to the Board of Supervisors and the public.

CAPITAL IMPROVEMENT BUDGET POLICIES

1. The County will consider capital improvements in accordance with an adopted capital improvement program.

2. The County will develop a five plan for capital improvements to be reviewed and updated each year.

3. The County will enact an annual capital budget based on the capital improvement plan. The first year of the plan will represent appropriation of revenues and expenditures; future years of the plan will be approved for planning purposes.

4. The County will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

5. The County will project its equipment replacement and maintenance needs as part of the capital improvement process. From this projection, a maintenance and replacement schedule will be developed.

6. The County will identify the estimated costs and potential funding sources for each capital project proposal.

7. The County will attempt to determine the least costly and most flexible financing method for all new projects.

DEBT POLICIES

1. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances more than policy targets, and "pay-as-you-go" appropriations. Pay-as-you-go appropriations will be adopted as part of the operating budget.

2. When the County finances capital improvements or other projects by issuing bonds, or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project.

3. In the Commonwealth of Virginia, there is no statutory limitation on the amount of debt a County can issue. The County has set its own debt ratio guidelines as part of sound financial management practices. Debt ratios will be annually calculated and included in the review of financial trends. The County will comply with the following debt ratio guidelines:

    a) Net debt as a percentage of estimated market value of taxable property should not exceed 2.75%. Net debt is to include general obligation, capital leases, and enterprise fund revenue bonds, including accreted interest.

    b) The ratio of debt service expenditures as a percent of total general fund expenditures (including transfers to other funds) should not exceed 12%. Limiting debt service expenditures in this way provides flexibility for other expenses in the budget.

4. The Director of Financial Services will oversee post-issuance activities to ensure compliance with federal guidelines and other legal and regulatory requirements. Post-issuance compliance responsibilities include:

    a) Tracking that proceeds of a debt issuance are spent on qualified tax-exempt debt purposes;

    b) Maintaining detailed records of all expenditures and investments related to debt funds;

    c) Ensuring that projects financed are used in a manner consistent with the legal requirements; and

    d) Timely reporting of necessary disclosure information and other required filings.

    e) Monitoring compliance with applicable arbitrage rules and performing required rebate calculations in a timely manner.

The Director of Financial Services may consult with bond counsel or other financial advisors or professionals they deem appropriate to meet the requirements of the Debt Policy.

FUND BALANCE RESERVE POLICIES

DEFINITIONS

Fund balance is the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. The Governmental Accounting Standards Board (GASB) prescribes the classifications for components of fund balance. The County shall report governmental fund balances per GASB definitions. These classifications are listed below in descending order of restrictiveness.

1. Nonspendable – amounts that cannot be spent because they are not in spendable form or are not expected to be converted into cash with the current period or at all.

2. Restricted – amounts subject to usage constraints that have either been externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

3. Committed – amounts constrained to use for specific purposes pursuant to formal action of the Board of Supervisors (the Board). The amounts cannot be used for other purposes unless the Board removes or changes the constraints via the same action used to initially commit them.

4. Assigned – amounts intended by the County for use for a specific purpose, but do not meet the criteria to be classified as restricted or committed. The Board can express the intent to assign fund balance. Formal action is not necessary to impose, remove, or modify a constraint in Assigned Fund Balance.

5. Unassigned – amounts that are available for any purpose.

MINIMUM FUND BALANCE

Unassigned fund balances at the close of each fiscal year should be at least 20% of the total annual adopted general fund budget of the subsequent fiscal year, plus the non-local portion of the school operating fund budget. The general fund budget includes the transfer to the Schools, Debt Service, and other transfers from the general fund.

The County Board may, from time-to-time, appropriate unassigned fund balances that will reduce available fund balances below the 20% policy for the purposes of a declared fiscal emergency or other such global purpose for the benefit of the County. In such circumstances, the Board will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.

REVENUE STABILIZATION RESERVE

The County will maintain a Revenue Stabilization Reserve of at least 1% of the total annual adopted general fund budget of the subsequent fiscal year, plus the non-local portion of the school operating fund budget.

The Board may draw down the Revenue Stabilization Reserve only if general fund revenues excluding use of prior year fund balance decline by more than 3% of the current fiscal year budget. In the event of a draw down, the Board will adopt a plan to restore the reserve to the policy level within 36 months from the date of the appropriation.

ORDER OF EXPENDITURES OF FUNDS

For any expenditure incurred for purposes for which multiple fund balance categories can be used, the County will utilize funds in the following spending order: restricted, committed, assigned, and unassigned.

REVENUE POLICIES

DIVERSIFICATION OF REVENUES

1. Diversification of revenues is a primary goal of the County.

2. The County does not have a profit motive when setting tax and fee rates. Tax and fee rates are based on the County's cost of services.

ESTABLISHMENT AND MODIFICATION OF FEES

1. Fees will be calculated based on appropriate cost of service delivery.

2. Fees will be reviewed and updated based on criteria defined in revenue regulations.

ACCOUNTS RECEIVABLE COLLECTION

1. Bad Debt Expense - The determination of the need for an allowance for doubtful accounts will be based upon accepted business practices and accounting standards. Write-offs of uncollectable balances will be based on the type of balance (i.e. tax or non-tax balance); the dollar amount outstanding; the length of time delinquent; and the status of standard collection efforts performed.

2. All write-offs require approval of the department head for non-tax balances or the Treasurer for general property tax balances.

FEDERAL, STATE AND PRIVATE GRANTS AND COOPERATIVE AGREEMENTS

1. This portion of the revenue policy prescribes procedures and requirements for the fiscal and program administration of all Federal, state and private grants and cooperative agreements.

2. The purpose of this policy is to: ensure proper oversight of all funds appropriated to the County from federal, state and local governments, non-profit agencies, and private sources; minimize the County's risk of non-compliance with the requirements of grant awards, regulations, and cooperative agreements; ensure proper fiscal administration, accounting, audit and reporting of all grants and cooperative agreements; and ensure proper program management of all grants and cooperative agreements.

3. Applicability - This policy and related Revenue Regulations apply to all grant and cooperative agreement applications prepared and/or submitted by County departments and Constitutional Officers to agencies outside the County government for funds, materials, or equipment to be received and/or administered by the County or by an agency for which the County acts as

fiscal agent, including any grant or cooperative agreement funds or items passed through to a sub-recipient.

4. Centralized Responsibility - The County Administrator shall establish underlying revenue regulations and procedures to help ensure that the purposes of this Policy regarding grants and cooperative agreements are met. Responsibility for the overall fiscal management of all County grants and cooperative agreements shall reside in the Department of Financial Services.

5. Decentralized Responsibility - Responsibility for the overall program management of all County grants and cooperative agreements shall reside with the Director or Directors of the Department(s) having functional responsibility for the individual grants or cooperative agreements, or as otherwise delegated by the County Administrator (hereinafter referred to as Senior Program Managers). It shall be the responsibility of the Senior Program Managers and their delegates having program management responsibility for a grant or cooperative agreement to cooperate with and perform all duties prescribed by the Department of Financial Services necessary for the proper fiscal management of all grants and cooperative agreements, and to file all required reports with grantors/agencies on a timely basis.

TRAVEL AND BUSINESS EXPENSE POLICIES

Expenses incurred for County purposes for travel and business by employees, officials or volunteers may be paid or reimbursed in accordance with requirements established by the Internal Revenue Service for an accountable plan in which those amounts are not subject to income taxation, and in compliance with this Policy and related Regulations approved by the County Administrator.

1. Meals and incidental per diem expense for travel shall not exceed the federal per diem rate established for the destination locality by the Internal Revenue Service. The mileage reimbursement rate shall equal that established by the Internal Revenue Service.
2. Allowable expenses for lodging, public transportation and business expenses shall be the actual costs provided they are reasonable.
3. This Policy shall be administered to provide for the most cost effective travel and business activity for the benefit of the County. Expenses may be paid or reimbursed only when they are reasonable and necessary for the conduct of County business, within amounts appropriated by the Board of Supervisors, properly documented, and approved by the appropriate authority.
4. The County Administrator shall interpret and administer this Policy and shall prescribe regulations implementing this Policy and describing additional detailed requirements.

COUNTY PROCUREMENT CARDS

Expenses paid by use of County procurement cards and other methods shall be subject to the same limits and standards of documentation as reimbursed expenses.

Financial ~~Policy Guidelines~~Management Policies

~~For:~~

GOOCHLAND COUNTY
VIRGINIA

Adopted: November 6, 2013
~~Adopted~~Amended: August 5, 2014
Amended: Month DD~~June 7~~, 2017

~~FINANCIAL POLICY GUIDELINES~~

~~County of Goochland, Virginia~~
~~August 2014~~

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~~FINANCIAL POLICY GUIDELINES~~

~~County of Goochland, Virginia~~
~~August 2014~~

FINANCIAL MANAGEMENT POLICIES

~~FISCAL~~ FINANCIAL ~~POLICY GUIDELINES~~MANAGEMENT POLICIES - OBJECTIVES

~~This~~ The ~~fiscal~~ financial management policiesy ~~is~~ are ~~a statement of~~ the guidelines and goals that will influence and guide the financial management practice of Goochland County. ~~A fiscal~~Financial policiesy that ~~is~~ are adopted, adhered to, and regularly reviewed ~~is~~ are recognized as the cornerstone of sound financial management. Effective ~~fiscal~~ financial management ~~policy~~policies:

- Contributes significantly to the County's ability to insulate itself from fiscal crisis and economic disruption,
- 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 Board of Supervisors and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

FINANCIAL MANAGEMENT POLICIES

To these ends, the following ~~fiscal~~ financial ~~policy statements~~management policies are presented.

~~**FINANCIAL POLICY GUIDELINES** – *Continued*~~
~~**County of Goochland, Virginia**~~
~~**August 2014**~~

OPERATING BUDGET POLICIES

1. The County will develop the annual Operating Budget in conjunction with a stated program of performance objectives and measures with which to gauge progress toward meeting those objectives.

2. ~~In order to~~To enhance financial planning, the County will prepare an annual budget with a second year of projections of general fund revenues and expenditures. Further, long range forecasts will be included for years three through five which ~~take into account~~consider the impact of projects in the Capital Improvement Program.

3. The ~~County~~ Board of Supervisors will adopt an annual balanced budget. A balanced budget is a budget with total expenditures equal to total revenues, including use of fund balance.

4. One-time or other special revenues will not be used to finance continuing County operations but instead will be used for funding items of a non-recurring nature.

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~~FINANCIAL POLICY GUIDELINES – Continued~~
~~County of Goochland, Virginia~~
~~August 2014~~

CAPITAL IMPROVEMENT BUDGET POLICIES

1. The County will consider capital improvements in accordance with an adopted capital improvement program.

2. The County will develop a five ~~or six-year~~ plan for capital improvements to be reviewed and updated each year.

3. The County will enact an annual capital budget based on the capital improvement plan. The first year of the plan will represent appropriation of revenues and expenditures; future years of the plan will be approved for planning purposes.

4. The County will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

5. The County will project its equipment replacement and maintenance needs as part of the capital improvement process. From this projection, a maintenance and replacement schedule will be developed.

6. The County will identify the estimated costs and potential funding sources for each capital project proposal.

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~~FINANCIAL POLICY GUIDELINES~~ ~~– *Continued*~~

~~**County of Goochland, Virginia**~~

~~**August 2014**~~

DEBT POLICIES

1. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances ~~in excess of~~more than policy targets, and "pay-as-you-go" appropriations. Pay-as-you-go appropriations will be adopted as part of the operating budget.

2. When the County finances capital improvements or other projects by issuing bonds, or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project.

3. In the Commonwealth of Virginia, there is no statutory limitation on the amount of debt a County can issue. The County has set its own debt ratio guidelines as part of sound financial management practices. Debt ratios will be annually calculated and included in the review of financial trends. The County will comply with the following debt ratio guidelines:

   a) Net debt as a percentage of estimated market value of taxable property should not exceed 2.75%. Net debt is to include general obligation, capital leases, and enterprise fund revenue bonds, including accreted interest.

   b) The ratio of debt service expenditures as a percent of total general fund expenditures (including transfers to other funds) should not exceed 12%. Limiting debt service expenditures in this way provides flexibility for other expenses in the budget.

4. The Director of Financial Services will oversee post-issuance activities to ensure compliance with federal guidelines and other legal and regulatory requirements. Post-issuance compliance responsibilities include:

   a) Tracking that proceeds of a debt issuance are spent on qualified tax-exempt debt purposes;

   b) Maintaining detailed records of all expenditures and investments related to debt funds;

   c) Ensuring that projects financed are used in a manner consistent with the legal requirements; and

   d) Timely reporting of necessary disclosure information and other required filings.

   e) Monitoring compliance with applicable arbitrage rules and performing required rebate calculations in a timely manner.

~~b)~~ The Director of Financial Services may consult with bond counsel or other financial advisors or professionals they deem appropriate to meet the requirements of the Debt Policy.

~~FINANCIAL POLICY GUIDELINES – *Continued*~~

~~**County of Goochland, Virginia**~~

~~**August 2014**~~

FUND BALANCE RESERVE POLICIES

DEFINITIONS

Fund balance is the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. The Governmental Accounting Standards Board (GASB) prescribes the classifications for components of fund balance. The County shall report governmental fund balances per GASB definitions. These classifications are listed below in descending order of restrictiveness.

1. Nonspendable – amounts that cannot be spent because they are not in spendable form or are not expected to be converted into cash with the current period or at all.

2. Restricted – amounts subject to usage constraints that have either been externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

3. Committed – amounts constrained to use for specific purposes pursuant to formal action of the Board of Supervisors (the Board). The amounts cannot be used for other purposes unless the Board removes or changes the constraints via the same action used to initially commit them.

4. Assigned – amounts intended by the County for use for a specific purpose, but do not meet the criteria to be classified as restricted or committed. ~~The intent can be expressed by the Board~~The Board can express the intent to assign fund balance. Formal action is not necessary to impose, remove, or modify a constraint in Assigned Fund Balance.

5. Unassigned – amounts that are available for any purpose.

MINIMUM FUND BALANCE

Unassigned fund balances at the close of each fiscal year should be at least 20% of the total annual adopted general fund budget of the subsequent fiscal year, plus the non-local portion of the school operating fund budget. The general fund budget includes the transfer to the Schools, Debt Service, and other transfers from the general fund.

The County Board may, from time-to-time, appropriate unassigned fund balances that will reduce available fund balances below the 20% policy for the purposes of a declared fiscal emergency or other such global purpose for the benefit of the County. In such circumstances, the Board will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be

accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.

REVENUE STABILIZATION RESERVE

The County will maintain a Revenue Stabilization Reserve of at least 1% of the total annual adopted general fund budget of the subsequent fiscal year, plus the non-local portion of the school operating fund budget.

The Board may draw down the Revenue Stabilization Reserve only ~~in the event that~~if general fund revenues excluding use of prior year fund balance decline by more than 3% of the current fiscal year budget. In the event of a draw down, the Board will adopt a plan to restore the reserve to the policy level within 36 months from the date of the appropriation.

ORDER OF EXPENDITURES OF FUNDS

For any expenditure incurred for purposes for which multiple fund balance categories can be used, the County will utilize funds in the following spending order: restricted, committed, assigned, and unassigned.

REVENUE POLICIES

DIVERSIFICATION OF REVENUES

1. Diversification of revenues is a primary goal of the County.

2. The County does not have a profit motive when setting tax and fee rates. Tax and fee rates are based on the County's cost of services.

ESTABLISHMENT AND MODIFICATION OF FEES

1. Fees will be calculated based on appropriate cost of service delivery.

2. Fees will be reviewed and updated based on criteria defined in revenue regulations.

ACCOUNTS RECEIVABLE COLLECTION

1. Bad Debt Expense - The determination of the need for an allowance for doubtful accounts will be based upon accepted business practices and accounting standards. Write-offs of uncollectable balances will be based on the type of balance (i.e. tax or non-tax balance); the dollar amount outstanding; the length of time delinquent; and the status of standard collection efforts performed.

2. All write-offs require approval of the department head for non-tax balances or the Treasurer for general property tax balances.

FEDERAL, STATE AND PRIVATE GRANTS AND COOPERATIVE AGREEMENTS

1. This portion of the revenue policy prescribes procedures and requirements for the fiscal and program administration of all Federal, state and private grants and cooperative agreements.

2. The purpose of this policy is to: ensure proper oversight of all funds appropriated to the County from federal, state and local governments, non-profit agencies, and private sources; minimize the County's risk of non-compliance with the requirements of grant awards, regulations, and cooperative agreements; ensure proper fiscal administration, accounting, audit and reporting of all grants and cooperative agreements; and ensure proper program management of all grants and cooperative agreements.

3. Applicability - This policy and related Revenue Regulations apply to all grant and cooperative agreement applications prepared and/or submitted by County departments and Constitutional Officers to agencies outside the County government for funds, materials, or equipment to be received and/or

administered by the County or by an agency for which the County acts as fiscal agent, including any grant or cooperative agreement funds or items passed through to a sub-recipient.

4. Centralized Responsibility - The County Administrator shall establish underlying revenue regulations and procedures to help ensure that the purposes of this Policy regarding grants and cooperative agreements are met. Responsibility for the overall fiscal management of all County grants and cooperative agreements shall reside in the Department of Financial Services.

5. Decentralized Responsibility - Responsibility for the overall program management of all County grants and cooperative agreements shall reside with the Director or Directors of the Department(s) having functional responsibility for the individual grants or cooperative agreements, or as otherwise delegated by the County Administrator (hereinafter referred to as Senior Program Managers). It shall be the responsibility of the Senior Program Managers and their delegates having program management responsibility for a grant or cooperative agreement to cooperate with and perform all duties prescribed by the Department of Financial Services necessary for the proper fiscal management of all grants and cooperative agreements, and to file all required reports with grantors/agencies on a timely basis.

TRAVEL AND BUSINESS EXPENSE POLICIES

Expenses incurred for County purposes for travel and business by employees, officials or volunteers may be paid or reimbursed in accordance with requirements established by the Internal Revenue Service for an accountable plan in which those amounts are not subject to income taxation, and in compliance with this Policy and related Regulations approved by the County Administrator.

1. Meals and incidental per diem expense for travel shall not exceed the federal per diem rate established for the destination locality by the Internal Revenue Service. The mileage reimbursement rate shall equal that established by the Internal Revenue Service.
2. Allowable expenses for lodging, public transportation and business expenses shall be the actual costs provided they are reasonable.
3. This Policy shall be administered to provide for the most cost effective travel and business activity for the benefit of the County. Expenses may be paid or reimbursed only when they are reasonable and necessary for the conduct of County business, within amounts appropriated by the Board of Supervisors, properly documented, and approved by the appropriate authority.
4. The County Administrator shall interpret and administer this Policy and shall prescribe regulations implementing this Policy and describing additional detailed requirements.

COUNTY PROCUREMENT CARDS

Expenses paid by use of County procurement cards and other methods shall be subject to the same limits and standards of documentation as reimbursed expenses.