



Financial Policy Guidelines

For:

**ROCKINGHAM COUNTY
VIRGINIA**

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FINANCIAL POLICY GUIDELINES

Rockingham County, Virginia
August, 2024

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FINANCIAL POLICY GUIDELINES

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GUIDELINES AND OBJECTIVES

Rockingham County has a responsibility to its citizens to account for public funds, to manage its finances wisely, and to allocate its resources efficiently, effectively, and equitably, in order to provide the services desired by the public. This fiscal policy provides a framework that guides the financial management practices for Rockingham County (“County”). These financial policies also provide guidelines and goals to guide the short- and long-term financial practices of the County.

Effective fiscal policy:

- Contributes significantly to the County's ability to insulate itself from recessions and other fiscal crisis,
- Enhances the ability to obtain short-term and long-term financing 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 overall fiscal position of the County,
- Links long-run financial planning with day-to-day cash operations, and
- Provides the Board of Supervisors (the Board) and the citizens a framework for measuring the fiscal operations of the County’s government services against established fiscal parameters and guidelines.
- Creates financial transparency for citizens, taxpayers and other stakeholders.

FINANCIAL POLICY GUIDELINES

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ACCOUNTING, AUDITING AND FINANCIAL REPORTING

1. The County shall establish and maintain a high standard of internal controls and accounting practices in accordance with the Uniform Financial Reporting Manual of Virginia and Generally Accepted Accounting Principles (GAAP) for governmental agencies as promulgated by the Government Accounting Standards Board.
2. Regular quarterly and annual financial reports shall be prepared to present a summary of financial activity by function and major fund types.
3. An independent public accounting firm shall perform an annual audit in accordance with generally accepted auditing standards in the United States of America, for all funds received or expended by any department, constitutional officer, agency or division of the County, including all component units, and as may be required for any agency for which the County serves as fiscal agent (such as for example the Harrisonburg-Rockingham Social Services District).
4. The County will annually seek the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.
5. The County shall report to the three major national credit ratings agencies on a timely manner, as they become available, all audits and budget information, as well as any related financially material public information.

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OPERATING BUDGET

1. The County Administrator shall develop and submit to the Board an annual budget as required by state law that is structured so that the Board and the public can understand the relationship between revenues and expenditures
2. As part of this submittal, the County shall analyze and report the ability to meet performance objectives and other measures used to gauge progress toward meeting those objectives.
3. The County will pay for all recurring expenditures with recurring revenues and will use non-recurring revenues for non-recurring expenses.
4. The County will avoid budgetary actions that balance current expenditures at the cost of meeting future years' expenses. Examples of such actions include postponing expenditures for capital maintenance, not funding annual current costs for on-going employee benefits, accruing future years' revenues.
5. The County Administrator and Finance Committee of the Board shall meet in advance of the presentation to the full Board.
6. The County will develop and annually update a long-range five-year Financial Plan. The Financial Plan will include a review of revenue trends and expenditures from the prior years' projections of revenues and expenditures, as well as future costs and the financing of capital improvements and other projects that are included in the capital budget.
7. When revenue shortfalls are anticipated in a fiscal year, spending during that fiscal year must be reduced sufficiently to offset the projected revenue shortfalls.
8. The Department Heads will monitor monthly actual revenue and expenditures to projected amounts for review by management.
9. The County will prepare the capital budget in conjunction with the development of the operating budget in order to assure that the estimated costs and future impact of a capital project on the operating budget will be considered prior to its inclusion in the Capital Improvement Plan (CIP).
10. The General Government operating budget is approved and appropriated by the County Board of Supervisors.

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REVENUES

1. The County shall endeavor to maintain a diverse, stable revenue system to mitigate adverse impacts to operations from short-term fluctuations in any one revenue source.
2. The County shall use objective, analytical measures to prepare annual revenue projections.
3. The County shall use sound appraisal procedures to keep property assessments current. All taxable property shall be assessed at 100% of fair market value. Real estate shall be reassessed every four years in compliance with state law.
4. The County, through its Treasurer, shall pursue an aggressive policy to collect delinquent taxes and fees due to the County.
5. The County shall, as a part of its annual budget preparation process, reconcile the full cost of activities supported by user fees to determine the adequacy of the fees to cover costs.
6. The County shall periodically review fees and user charges for each enterprise fund operation, such as utilities and solid waste, to maintain fees at a level sufficient to cover both the direct and indirect cost of the service. Indirect costs include annual depreciation and amortization of capital assets.
7. The County shall set fees for other user activities, such as recreation programs, inspections, and other similar activities, at a level based upon the service provided and the objectives of the Board.
8. The County shall routinely identify intergovernmental grant opportunities. In considering approval for such grants, the Board shall assess the merits of the program as if it were funded with local tax dollars. Likewise, local tax dollars shall not be used to offset the loss of grant funding without the Board first reviewing the merits of the program and the incremental impact on the operations budget.

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DEBT

1. The County shall utilize a balanced approach to capital funding utilizing debt financing, capital reserves and current-year revenues.
2. The County shall use long-term borrowing solely for capital improvement projects and shall in no case use long-term borrowing to fund current operations.
3. The County shall match the repayment schedule (debt service) for bonds used to finance capital improvements with a period not to exceed the expected useful life of the project.
4. The County shall establish a debt service fund in order to account for all principal and interest payments in a given fiscal year. The fund will carry a fund balance from year to year in order to establish reserves for future debt service.
 - a. The County will set a target balance of \$20M by Fiscal Year 2029 in order to offset large capital expenditures.
 - i. The County will appropriate an additional \$1,000,000 over the base budget each fiscal year.
 - ii. The County will appropriate the principal and interest received from the Tourism Fund for payback of a note.
 - iii. At year-end the investment earnings account in the General Fund will be analyzed. Any amount received in excess of \$1,000,000 will be transferred to the debt service fund.
5. Declines and step-downs in the County and School debt service schedules shall not be budgeted as such. Any current year revenues not required due to a decline in the County and School debt service schedule or due to the realization of an alternative funding source shall be appropriated to a Debt Service Fund to be used to support future CIP needs. In doing so, the County will build a natural debt affordability.
6. If the debt service fund reserve begins to build up, the reserve may be used to cash-fund capital projects. This is only permitted after a review of the five-year capital improvement plan does not show a necessity for the funds to be used for debt service.
7. Target debt ratios shall be calculated annually and included in the review of financial trends.

- a. Direct net debt as a percentage of estimated market value of taxable property shall not exceed three percent (3%). Direct net debt is defined as all debt that is tax-supported. This ratio shall be calculated annually and included in the review of financial trends.
 - b. The ratio of direct debt service expenditures as a percent of total governmental fund expenditures (including the component unit school division) shall not exceed ten percent (10%).
 - c. The County intends to maintain its ten-year tax-supported debt and lease payout ratio at or above sixty percent (60%).
8. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County shall regularly analyze total indebtedness including underlying and overlapping debt.
9. The County shall explore the use of special assessment bonds, revenue bonds, or other similar financing tools, rather than general obligation bonds, when the benefit from a project is readily assignable to a specific area or function,
10. From time to time, the County may engage the services of an independent financial advisor to assist the Board in its evaluation.

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GENERAL FUND RESERVE

The fund balance is built over years from savings to provide the County with working capital to enable it to finance unforeseen emergencies without borrowing.

1. The County will maintain a fund balance for cash liquidity purposes that will provide sufficient cash flow to minimize the possibility of short-term tax anticipation borrowing
2. A target amount equal to 1% of the County's General Fund revenues shall be reserved as an unassigned Budget Stabilization Reserve. The Budget Stabilization Reserve may be used from time to time as necessary to meet unanticipated one-time emergencies and unanticipated expenditures required to pay operating costs necessary to maintain the quality or level of current services or to smooth/offset revenue fluctuations occurring within a fiscal year.
3. Unassigned fund balances in the General Fund at the close of each fiscal year shall be at least fifteen percent (15%) of the total annual adopted General Fund budget.
4. The Board may, from time-to-time, for the purposes of a declared fiscal emergency or other such global purpose authorize the use of unassigned fund balance reserves that results in reducing available fund balances below the fifteen percent (15%) level established in the previous paragraph for the purpose of protecting the long-term fiscal security of the County. In such circumstances, the Board shall adopt a plan to restore the available fund balance reserve to the policy level within thirty-six (36) months from the date of such action.
5. In recognition of the incremental costs of capital improvements and their future maintenance and replacement costs, the Board shall establish a Capital Improvement Reserve. The level of transfer to the Reserve shall be determined annually as part of the development of the County's Annual Operating Budget.
6. The Board of Supervisors may appropriate funds in excess of the unassigned 15% General Fund fund balance policy level and the 1% Budget Stabilization Reserve to the capital improvement program in support of "pay-as you-go" funding; or for other one-time uses.
7. The County will also establish targeted fund balances for other County funds, such as the Self-Funded Health and Dental Funds and the Children's Services Act Fund (CSA), to meet cash flow needs and to address unexpected expenditure or revenue shortfalls.

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NON-TAX RECEIVABLE ACCOUNTS

The County shall establish a policy to write-off uncollectible accounts receivable balances of the County's non-tax receivable accounts. Non-tax receivable accounts include the County's water and sewer funds, solid waste fund and all other general accounts receivable.

1. It is the policy of Rockingham County to actively pursue the collection of past-due accounts receivable and write-off amounts determined to be uncollectible. A write-off of uncollectible accounts receivable from the County's accounting records does not constitute forgiveness of the debt or gift of public funds.
2. Collection procedures are established by the responsible departments and will vary depending on the nature of the receivable. Accounts receivable should generally be written-off during the fiscal year in which an account is determined to be uncollectible. Subsequent collection of an account previously written-off will be treated as new revenue in the appropriate fund.
3. An account will be considered uncollectible after the appropriate collection procedures have been followed and it meets one or more of the following criteria:
 - a. The debt is disputed and the County has insufficient documentation to pursue collection
 - b. The cost of further collection efforts will exceed the estimated recovery amount
 - c. The amount is under \$25 and remains unpaid after one year
 - d. The debtor cannot be located
 - e. The debtor has died and there is no known estate or guarantor
 - f. The debtor is discharged through legal action (bankruptcy or court judgement)
 - g. The debtor is a company which is no longer in business
 - h. The debt has been submitted to the State Debt Off Program for a minimum of 2 years

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4. At least annually, each department will identify any accounts receivable for which it is responsible that meet the criteria for designation as an uncollectible account.
5. A request for write-off of accounts receivable will be prepared by departmental staff, signed by the department head and submitted to the Director of Finance. The request for write-off of accounts receivable must include an itemized list of the uncollectible accounts to be written off specifying the following:
 - a. Debtor Name
 - b. Account Balance
 - c. Due Date
 - d. Brief description of receivable type
 - e. Criteria under which the account was deemed uncollectible
 - f. Account number of the receivable in the County's accounting system
6. Upon receipt of a request for write-off of accounts receivable by the Director of Finance, the qualified accounts to be written-off will be presented to the appropriate authorizing official for approval. The approval limits are as follows:
 - a. The Director of Finance is authorized to approve the write-off of accounts with an outstanding balance due of up to \$100.
 - b. Write off amounts with an outstanding balance due in excess of \$100 must be approved by the County Board of Supervisors.

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INVESTMENTS

The County has adopted an Investment Policy to guide the investment decisions made on behalf of the County by investment managers and to establish guidelines and procedures for county staff.

CAPITALIZATION GUIDELINES

The County shall establish a guideline to determine when an asset shall be capitalized in the Annual Comprehensive Financial Report of the County. Assets that meet any of the following criteria shall be capitalized.

- a) Construction and/or acquisition of new assets, including buildings, vehicles, equipment, land improvements or hardware/software where the costs of construction or acquisition (including incidental costs) meet or exceed \$25,000 and the useful life of the asset exceeds one year.
- b) Upgrades or additions to existing buildings, equipment, or other assets that increase the value or greatly extend the estimated useful life of the asset where the costs of the upgrade or addition exceed \$25,000.
- c) The purchase or acquisition of land and easements regardless of the cost or value.
- d) Any capital asset described in sections (a) and (b) that is purchased with funds from the Federal Government for more than \$5,000 will be deemed to be a capital asset.
- e) Assets acquired by gift are accounted for at the asset's acquisition value at the date the asset was received. If the asset is valued at or above \$25,000 at the date it was received and it has a useful life greater than one year it shall be capitalized.

The following capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Buildings	20 to 30 years
Improvements other than buildings	5 to 50 years
Machinery and equipment	5 to 15 years
Software	3 to 5 years

Land and land easements have indefinite useful lives and thus are not subject to depreciation or amortization.

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CAPITAL IMPROVEMENT BUDGET

1. The County shall develop a five-year plan for capital improvements, and the Board shall review and update the plan annually.
2. The County will coordinate the development of the capital budget with the development of the operating budget so that future operating costs, including annual debt service associated with new capital projects, will be projected and included in operating budget forecasts.
3. The County shall include as part of its annual budget process an annual capital budget based on the five-year capital improvement plan. The Board shall include in the projections used to develop the capital budget expected changes in population, real estate development and economic activity within the County. Emphasis will continue to be placed upon a viable level of “pay-as-you-go” capital construction to fulfill needs in a Board-approved Capital Improvements Program.
3. The County shall use intergovernmental grants and loans to finance only those capital improvements consistent with the capital improvement plan and County priorities, and shall include operating and maintenance costs for such improvements in operating budget forecasts.
4. The County shall take all prudent steps to maintain its assets at a level adequate to protect the County's capital investment, and to minimize future maintenance and replacement costs.
5. The Board shall review estimated costs and potential funding sources for each capital project prior to approval. Included in this review should be the anticipated impact to operational budgets.
 6. The County staff shall analyze and present to the Board financing alternatives with a recommendation for each project.
7. Upon completion of any capital project, remaining appropriated funds in that project will be returned to an unassigned capital project fund. Any transfer of remaining funds from one appropriation category to another must be approved by the Board of Supervisors, or if authorized by the Board of Supervisors, by the County Administrator.

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WATER AND SEWER FUNDS

Rockingham County's goal is to establish a sound financial budget policy to protect from changes in the economic environment. The County receives over 40% of its water and sewer revenue from one large utility consumer. In order to protect the County from an unplanned event causing a decrease in the revenue provided from the user, the County will institute the following fund reserve policies.

1. Working Capital of the Water & Sewer Fund will equal at a minimum 1 year of operating expenses from the previous audited fiscal year. Working Capital is defined as current assets less current liabilities. Operating expenses includes depreciation expense.
2. The County will put a minimum of 4% of the budgeted water/sewer revenue into cash reserves each year. An exception can be made, if this cash is used to fund a capital project and the County has met the minimum cash reserve balance listed above.
3. Monthly water and sewer usage fees should be set such that operating revenues cover operating expenses (including depreciation). Connection Fees shall only be used to fund capital projects, debt service or cash reserves.

The Rockingham County Board of Supervisors from time to time may decide to borrow from the reserves below the minimum threshold to fund a special/critical project. This may be done as long as the County restores the reserves to the minimum balance, set forth above, within the following three fiscal years.

The County's fiscal policies shall be adopted by resolution of the Board of Supervisors. These policies will be reviewed annually for compliance after the County's previous year ACFR is released.

The fiscal policies shall remain in effect until such time as they are amended or repealed by subsequent Board of Supervisors action.

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SOLID WASTE FUNDS

Rockingham County's goal is to establish a sound financial budget policy to protect from changes in the regulatory environment. The County operates a solid waste facility that is subject to numerous federal and state regulatory mandates. A change in a mandate can increase the County's operating expenses drastically. In order to financially protect the County from these changes, the County will institute the following fund reserve policies.

1. Working Capital of the Solid Waste Fund will equal at a minimum 4 months average of operating expenses from the previous audited fiscal year. Working Capital is defined as current assets less current liabilities. Operating expenses includes depreciation expense.
2. The County will deposit a minimum of 4% of the budgeted solid waste revenue into cash reserves each year. An exception can be made, if this cash is used to fund a capital project and the County has met the minimum cash reserve balance listed above.
3. Tipping fees should be set such that operating revenues cover operating expenses (including depreciation).

The Rockingham County Board of Supervisors from time to time may decide to borrow from the reserves below the minimum threshold to fund a special/critical project. This may be done as long as the County restores the reserves to the minimum balance, set forth above, within the following three fiscal years.

The County's fiscal policies shall be adopted by resolution of the Board of Supervisors. These policies will be reviewed annually for compliance after the County's previous year ACFR is released.

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