



TOWN OF ONANCOCK

FINANCIAL POLICIES

MAY 1, 2021
TOWN OF ONANCOCK
15 North St. Onancock, VA 23417

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Introduction

The Town of Onancock 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 Onancock.

Accounting, Auditing, Financial Reporting

The Town of Onancock 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 Government Accounting Standards Boards (GASB).

The Town will engage an independent accounting firm to perform annual financial statement and compliance audits according to the generally accepted government auditing standards.

The independent audit firm will issue its opinion on the presentation of the Town's financial statements and reporting, which will be incorporated into the Town's annual financial reports (AFR). Any recommendations made by the auditors or any items listed on the Management Letter are the sole responsibility of the Town Manager to address or respond.

As part of normal practice or at the request of Town Council, the contract to perform the annual audit firm shall be put to bid to ensure consistent independence in the review of the Town financial statements.

Revenue Management

General Fund

The Town will seek to maintain a diversified and stable revenue structure in an effort to prevent reliance on any one revenue source and to limit cash flow volatility.

The Town will use an objective, analytical approach to estimate its annual revenues.

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, debt service costs, and reserve replenishment. The Town will periodically review user fees against expenses to determine if coverage of direct and indirect costs are being accomplished.

Special Revenue Fund

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 by local tax dollars. Local dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary matter. All grant applications must be approved by the Town Manager before being submitted.

Grants and donations may only be accepted by Town Council. No grant will be accepted that will incur management and reporting costs greater than the grant amount. When administrative costs are

reimbursed by grant funds, the excess revenue over expenditures produced by these funds is to be transferred to the general fund to offset the cost of administrative costs to administer the grant.

Utilities Fund

The Town will operate a Utility Fund (sometimes referred to as a “Business Type Activities” Fund) as a standalone enterprise fund that will not be subsidized by the budget of the General Fund or any other Funds that may be established by the Town.

In the event of an actual shortfall in the Utility Fund that must be funded by the General Fund to ensure its ongoing operations, the subsidized amount will be returned to the General Fund as soon as practicable.

The Utilities Fund will reimburse the General Fund for reasonable expenses related to overhead and administration support costs as part of the annual budget process.

The Town will set annual utility rates based on the actual costs to deliver services. The Town will periodically review the components that make up the rates and fees through a cost-of-service study for every service provided. The Town is not prohibited from establishing fair and reasonable rates that allow a differential between in-town and out-of-town customers.

The Town will set rates to achieve a positive cash flow including but not limited to all operating costs, funding of appropriate reserves, repayment of general fund transfers, and capital equipment repair or replacement expenditures. Any shortfall in cash flow will be recovered by increasing rates.

The Utility Fund is required to maintain all reserves required for any bond or lending instrument.

The Town will track, monitor, and report annually to Town Council on key variables of the rate model. The Town will set rates based on a 5-year projection of all expenditures and reserves. The purpose of pricing off multi-year models is to avoid volatile price changes to Onancock customers.

Budget Management

Operating Budget

The Town will prepare budgets annually as required by state code.

The purpose of the budget is to raise and appropriate funds to achieve the financial, operational, and strategic objectives of Town Council. Services delivery must be made with available resources and must be delivered to residents and taxpayers as efficiently and effectively as possible.

The operating budget will raise sufficient revenue to fund all current year operating, capital, and reserves.

Non-recurring revenue or grant funds may fund current year expenditures but may not be used to create services that will incur future year or recurring operating expenses. Any operating surplus generated by non-recurring funds must follow policy for reserves and surplus management.

The Town will seek to finish each fiscal year with a positive unassigned fund balance and a positive cash balance.

During the year, if the projected financial results for the year indicate a negative fund balance or cash deficit, a plan will be presented by the Town Manager to Town Council with specific action items detailed which shall include recommendations for expenditures to be reduced. Town Council will be made aware of the issue clearly and within 30-days of the projection.

The budget will be structured and reported in such a manner as to be easily understood by all members of Town Council and the general public, showing the relationship between revenues and delivered services.

The Town Council and Town Manager will review the budget with a focus on whether existing service costs are appropriate and justified, that administrative overhead costs are reasonable, and that proposed new programs and program expansions are justified, detailed, and scrutinized.

Capital Budget

The Town will prepare a 5-year capital improvement plan and include it with the annual operating budget.

Adjustments to the capital budget must be approved by Town Council. In the event of an unscheduled and urgent capital need, the Town Manager at the direction of Town Council may replace current year capital expenditures with the urgently needed asset. In the event that its purchase will exceed the current year capital budget, the Town Manager must present to Town Council via email the need, and the plan to pay for the asset without creating a projected negative cash position at the end of the fiscal year. If the purchase of the asset will cause current year expenditures to exceed the adopted budget, a budget amendment must be adopted by Town Council.

Special Reserve Fund

The purpose Special Reserve Fund is to pay for non-recurring projects and services funded by non-local-taxpayer sources. These are typically called grants. The Town Council must acknowledge all grant applications and agree in concept to the project or service for which the grant is designed to fund.

The lead time for grant applications is often very short which may require email requests sent by the Town Manager to request/notify Town Council of the application and its purpose. If the grant was known and included in the Special Revenue Fund budget, the Town Manager need only notify Town Council of the application.

The Special Revenue Reserve Fund is created and maintained to ensure the Town has liquid resources to meet grant matching requirements.

The Special Revenue Fund is to be included in the annual operating budget of the Town to create or replenish reserve funds to meet the purpose of the fund.

Often, grant periods span fiscal years. The balance of the Special Reserve Fund is to be budgeted to fund the reserve at a level to meet the reserve limits as if all known matching fund commitments have been met.

Grant applications should align with the goals described in the most recently adopted Comprehensive Plan.

Utilities Fund Budget

The budget for the utilities fund is to be created at the same time as the general fund using the same process.

The utilities fund must be treated and balanced as a separate business unit. Rates and budget requirements shall meet the criteria described in the revenue management policy.

Cash Management

In recognition of its fiduciary role in the management of all public funds entrusted to its care, it shall be the Town Council's policy that all investible balances be invested utilizing best practices commonly accepted by political subdivisions in Virginia.

The Town Manager serves as the Town's Treasurer, as allowed by Town Code 2-178 and has the authority by code and policy to manage investments on behalf of the Town according to best practices for political subdivisions in Virginia.

The safeguarding of principal shall be the foremost objective of the investment program by mitigating credit and interest rate risk, with all other objectives subordinated to this objective.

The investments shall consider the seasonal nature of cash flow and other material cash flow concerns and needs in order to assure availability of funds in a timely and liquid manner.

The Town will, where permitted by law, pool cash from its various funds for investment purposes and will invest revenue to maximize rate of return while maintaining a low level of risk.

All cash balances established shall be in interest bearing accounts except for the primary operating checking account.

All depositories will meet the standards for collateralization as set forth in the Virginia Security for Public Deposits Act or will be covered by Federal Depository Insurance (FDIC).

The Town Manager will report to Town Council at least quarterly the value and performance of all cash depositories and investment accounts in a format easily understood by Council members and the general public.

Reserve Funds Management

General Fund Unassigned Reserve

The General Fund Unassigned Reserve be maintained at a minimum of 30% of the total general fund revenues.

Use of the General Fund Unassigned Reserve may be necessary from time to time to meet unexpected revenue shortfalls or financial emergencies. By policy, appropriations from, or changes to the General Fund Unassigned Reserve require a majority vote of the Town Council. No appropriation of the reserve balance that will cause the fund to fall below the minimum policy limit will occur without prior presentation to Town Council by the Town Manager of a plan and timeline for replenishing the fund to its minimum level within 24 months.

Annual operating surpluses in the general fund shall be applied first to the General Fund Unassigned Reserve until it is funded at the minimum amount required by policy, then to the Capital Asset Reserve, then the Special Revenue Reserve.

Capital Asset Reserve Fund

The Town will establish a Capital Asset Reserve Fund (CARF) in order to fund through non-debt sources 25% of the Town’s share of the costs of capital projects approved in the 5-year capital improvement plan.

Use of the CARF will be used first on capital assets with a useful life of 5-years or less (vehicles, tools, etc.) and then on capital projects with useful lives of more than five years (buildings, building improvements, etc.).

Town Council may, from time to time, authorize the transfer of funds from the General Fund Unassigned Reserve in excess of the Town’s stated policy to the CARF so long as the Town stays in compliance with the targeted Unassigned Fund reserve policy levels.

Special Revenue Fund Reserve

The purpose of the Special Revenue Reserve Fund is to assure immediate access to funds to meet the matching requirement of any grant application.

The minimum balance of this fund is \$250,000 and may not exceed \$1,500,000.

Utilities Fund Reserve

The Town will maintain in the Utilities Reserve an amount equal to 120-days of operating expenditures including debt payments to provide funds for any timing difference between operating revenue and operating expenditures, and for unplanned expenditures (O&M Reserve).

The Town will establish, within the Utilities Reserve, a Distribution System Reserve to provide funds for major repairs, replacements, or rehabilitation of assets (3Rs). The 3R Reserve will be equal to 30% of the Accumulated Depreciation for capital assets categorized to the Utility Fund.

The Utility Reserve will include an additional \$15,000 for unbudgeted repairs that require street and road infrastructure repairs. Use of these funds requires approval of the Town Manager and notice sent via email to Town Council members.

Annual operating surpluses in the Utility Fund first fund the O&M Reserve until it reaches its minimum, then the 3R reserve, then the emergency infrastructure repair reserve.

Debt Management

The Town will not fund current operations with borrowed funds and will limit borrowing and capital leases to capital improvements, projects, and equipment that cannot be funded through current financial resources.

Financing capital asset purchases such as vehicles must be presented to Town Council with impact on cash flow and interest costs.

The Town will finance all equipment purchases for a term less than the asset's useful life.

Fixed (Capital) Asset Management

The Town will capitalize all asset purchases with a value of \$5,000 per unit with a useful life of 3 or more years.

Computer equipment, no matter its value, is not to be capitalized.

Any asset placed in service must be accounted for in the repairs and maintenance operating budget for the Town to ensure it is properly maintained and care for.

The Town will create a Capital Asset Improvement Plan as described above.

The Town will evaluate its insurance coverage to ensure adequate commercial insurance coverage for all its capital assets.