03. FINANCE

3.2. Accounting and Financial Reporting

BOS Adopted - May 7, 2008

3.2.1. <u>Purpose</u>

A. The County of Fluvanna and its governing body, the Board of Supervisors, is responsible to the County's citizens to carefully account for all public funds, to manage County finances wisely and to plan for the adequate funding of services desired by the public, including the provisions and maintenance of facilities.

B. This policy will establish clear and consistent guidelines to ensure financial stability, enhance short- and long-term financial creditability to achieve high credit and bond ratings, and address the accounting methods utilized in the different fund types for revenues, expenditures, assets, liabilities and net assets (fund equity).

3.2.2. <u>Standards</u>. The County will adhere to and maintain a high standard of accounting practices in conformance with:

- Generally Accepted Accounting Principles (GAAP)
- Government Accounting Standards Board (GASB)
- Financial Accounting Standards Board (FASB)
- Code of Virginia

3.2.3. <u>Reporting</u>

A. The County will engage an independent firm of Certified Public Accountants (CPA) to perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS).

B. All activities for which the County exercises oversight responsibility are incorporated into the financial statements to form the reporting entity.

C. Year end financial statements shall be formulated based upon accounting standards.

D. A Comprehensive Annual Financial Report (CAFR) will be prepared at the conclusion of the County audit.

E. The County will annually seek the GFOA Certificate of Achievement for Excellence in Financial Reporting.

F. Monthly financial statements shall be distributed to the Board and County Administrator by the end of preceding month.

3.2.4. <u>Fund Accounting</u>

A. Accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity.

> *A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. (National Council on Governmental Accounting, Statement 1)*

B. Governmental funds use the modified accrual basis of accounting. Modified accrual basis of accounting and current financial resources measurement focus defines when revenues and expenditure are recognized in the financial statements.

1. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. The criteria to identify availability is collectible within the current period or soon enough thereafter (usually 60 days after fiscal year ends) to pay liabilities.

2. Expenditures are recognized for goods and services when the liability is incurred.

3. In applying this general principal, there are several important distinctions for governmental funds:

a. Depreciation and amortization are not recorded as expenditures, nor are long-term liabilities.

b. Accrued interest expense is not recorded on debt service up to the date of the fiscal year end.

c. Inventory including materials and supplies are expenditure at the time of purchase.

d. Expenditures extending over more than fiscal year are expense in the period during which they were acquired. They do not have to be allocated between the fiscal years to which they relate.

C. Accrual basis of accounting will be followed by the proprietary fund types. Revenues recognized when earned and expenses recognized when incurred.

D. Fund types and accounts groups are used by the County

1. General Fund – The general fund is the primary operating fund of the County. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other taxes, state and federal distributions, licenses, permits, charges for services and other income. A significant part of the General Fund's revenues is used principally to finance the operations of the School Board. General fund includes Social Services, Federal, State, and Local Grants, and Drug Forfeiture.

2. Capital Fund – Capital improvement fund are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. Capital improvement fund consist of the General Government and School Improvement projects.

3. Debt Service Fund – The debt service fund is used for the payment of principal and interest on all loans, leases, and general obligations. The County's debt service fund is exclusive of School Fund for budgeting purposes, but is consolidated in the CAFR. For external reporting, the debt service is included in the General Fund.

4. Enterprise Fund – Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The measurement focus is upon the determination of net income. The County's proprietary fund type includes the Enterprise Funds, which are used to account for the acquisition, operation, and maintenance of governmental facilities and services which are primarily supported by user charges. The operations of Community Programs (Parks & Recreation), Landfill, Utility (Sewer), and Fork Union Sanitary District (FUSD) are accounted for and reported as Enterprise Funds.

5. Discretely Presented Component Unit – The Fluvanna County School Board is an elected board. The School Board is responsible for the operations of the County's School System and is fiscally dependent upon the County. The School Board adopts an annual budget for the schools and submits an appropriation request to the Board of Supervisors. The Board of Supervisors can accept or modify the appropriation request with the adoption of the annual County budget.

3.2.5. Capital Assets

A. Capital assets shall be capitalized for cost greater than $5,000 and a useful life of five years.

B. Expenditures considered capital assets are:

- Land or rights to land;
- Buildings;
- Additions to or renovations of buildings that add value to the building, improve it, or extend its useful life;
- Improvements to land other than buildings that add value to the land or improve its utility;

- Equipment, vehicles, and furnishings, as well as additions to or refurbishing of capital equipment;
- Intangibles;
- Construction in progress; and
- Infrastructure.

C. Valuation of Capital Asset includes:

1. Actual cost of the item itself; and

2. Any ancillary costs incurred that are necessary to place the asset in its intended location and condition ready for use. Examples of ancillary costs are freight and transportation charges, site preparation, professional fees, and legal claims.

3.2.6. Non-Capitalized Assets

A. Items of small value may have a relatively long life such as shovels, tool boxes, scissors, etc. should be classified as supplies.

B. Routine maintenance or repair, anything normal or necessary, does not add value to capital asset or materially extend the life of the capital asset should be charged to departmental budget maintenance or supply line item.

3.2.7. Approval Requirements. Capital assets are subject to the County's procurement policy and guidelines except for purchases of technology or related equipment. Technology or related items shall pass through the Director of Information Technology and County Administrator.

3.2.8. Depreciation

A. Capital assets shall be depreciated over the estimated useful life of the asset using the straight line method as follows:

Assets	Years
Buildings and infrastructure	40 to 50
Building improvements	30 to 40
Water and sewer system	20 to 50
Fire trucks and buses	10 to 15
Vehicles, office and computer equipment	5 to 10

B. Capital assets acquired during the fiscal year will be depreciated in the fiscal year of acquisition.

C. Capitalization of interest costs, in the enterprise funds, will be performed when the interest costs are material in relation to total enterprise fund expenses and fixed assets.

3.2.9. Donated Assets and In-Kind Contributions

A. Assets received by donation are recorded at its estimated fair value at the time of acquisition by the County.

B. Level of authority to accept donated assets and in-kind contributions:

1. Department head for items below $2,500;

2. County Administrator for items between $2,500 and $25,000: or

3. Board of Supervisor for items greater than $25,000.

3.2.10. <u>General Ledger Entries</u>

A. <u>Journal Entries</u>

1. Journal entries (JE) are designated in the Bright Accounting software (BAI) as source type JE.

2. JEs are manual entries into BAI.

3. They are entered throughout the fiscal year for reclassifying revenue, correcting an automatic posting for revenue or expenditures, or entering financial information not posted through payroll, accounts payable, treasury, or utilities modules for example proceeds for indebtedness or stop payment fee.

4. All JEs are posted or reviewed by the Director of Finance. JEs may be posted by Finance department staff to correct or reclassify an item. Documentation generated by BAI and supporting documentation for the creation of the entry and explanation for entry is maintained by month and fiscal year. A list of JEs is printed by query on a monthly basis from BAI as a listing and guide to the documentation.

5. JEs greater than $250,000 will require signature by the County Administrator, except for School expenditures.

B. <u>Adjusting Entries</u>

1. Adjusting entries (AE) are designated in the BAI as source type AE.

2. AEs are manual entries into BAI.

3. They are entered after the general ledger has been closed for the fiscal year. An example of AEs would be auditor's adjusting entries. An AE will be manually entered into BAI system for closed fiscal year; the system will recognize the entry and apply it into current fiscal year, if there's an impact.

4. All AEs are posted by the Director of Finance. Any AE proposed by the auditors must be reviewed and approved by Finance Director before entry.

5. AE's greater than $50,000 will require signature by the County Administrator.

3.2.11. <u>Disbursements</u>

A. <u>Void Checks</u>

1. Checks are voided by the Finance Department in order to maintain control and processing through BAI.

2. If it is determined that a check needs to be voided, it is sent directly to a Senior Finance Assistant with an explanation.

3. Senior Finance Assistant will void check in BAI.

4. Void checks are forward to the Treasurer's Office each month around the 25th.

B. <u>Stop Payments</u>

1. Notify the Finance Department to place a stop payment on check. Verification will be made with Treasurer that the check has not cleared the bank. The check is voided and reissue through the accounts payable system.

2. Treasurer is responsible for placing stop payments on checks with the bank.

3. A stop payment fee will be charged to the department placing the stop payment order by journal entry.

C. <u>Wire Transfers</u>

1. Electronic fund transfers (EFT) will be the preferred method of payment for debt service to ensure timely payment by due date in order for the County to retain use of their funds until that date. The use of electronic fund transfers standardizes payment streams, reduces credit and liquidity risk, provides a complete audit trail, improves efficiency, and reduces loss of the use of funds.

2. Wire transfers will be initiated by a Wire Transfer form and signed by the Director of Finance, County Administrator, and Treasurer.

3. Treasurer is responsible for issuing the wire transfer with the bank. A signed copy of the Wire Transfer form is returned to Finance.

4. Senior Finance Assistant enters the disbursement into Accounts Payable as a manual check.

D. Vendor Refunds

1. Cash refunded from a vendor because of returned goods; services paid for, but not used; or for overpayments for goods or services.

2. Departments should request cash refunds, if they do not expect any further business with a vendor.

3. Cash refunds are recorded on Revenue Transmittal and Pay In Voucher using the Master Dept. Code of RFND for Expenditure Refunds.

**Cash refunds should be recorded as revenue regardless when the expenditure was made.

E. Credit Memos

1. Credit memo will be applied to current invoice due to the vendor.

2. If no invoice is currently due to the vendor, the credit memo will remain in the department until a future invoice is paid to the vendor.

3. Credit memos should be properly documented and attached to invoice for payment.