Principles of Sound Financial Management

July 2024

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Prince William County

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Introduction

Prince William County is a diverse community striving to be healthy, safe, and caring with a thriving economy and a protected natural environment. The Principles of Sound Financial Management establish a foundation for the fiscal strength and stability of the County's government. Specifically, these Principles guide the Board of County Supervisors, County Executive, and staff when making fiscal decisions regarding resource allocations and annual appropriations. Fiscal principles assure sound stewardship of taxpayer dollars. The principles guide the County in the planning of expenditures, revenues and funding arrangements for public programs and services to achieve the goals, objectives and long-term vision defined by the County's Comprehensive and Strategic Plans. Additionally, these principles ensure budget flexibility and structural stability to weather economic cycles.

The financial condition of the County must be maintained at the highest level to assure resources are available to meet the community's ever-changing needs and these *Principles* reflect the County's commitment to continued fiscal strength.

Prince William County initially adopted the *Principles of Sound Financial Management* in December 1988, and amended the *Principles* in 1993, 1996, 1999, 2009, 2012, 2016 and 2018. As the County and its population continue to grow and become more complex and diverse, policy changes are occasionally needed. This edition marks the eighth amendment to the *Principles of Sound Financial Management*.

Establishing, adhering to, and updating these guiding financial policies have enhanced the County's image and credibility with the public, credit rating agencies, and investors. Just as important as it is to regularly engage in the process of financial planning, a regular review and update of these financial guidelines, including reaffirmation, is not only a best practice but also reflective of a strategic, long-term approach to financial management.

The *Principles of Sound Financial Management* apply to the County and its agencies, but do not apply to the Prince William County School Board, an independent entity.

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Policy I
Fund Balance

The County shall maintain a fund balance position that meets the County's needs and challenges and mitigates current and future risks. Fund balance measures the net financial resources available to finance the County government. Rating agencies examine fund balance when considering the overall economic health and credit quality of the County.

1.00 Unassigned General Fund Balance

1.01 The County's Unassigned General Fund Balance will be maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing.

1.02 Except for the provisions contained in Policy No. 1.05, the Unassigned General Fund Balance will not be less than seven and one-half percent (7.5%), of each year's General Fund revenues in every fiscal year of the Five-Year Plan.

1.03 The Unassigned General Fund Balance can only be appropriated by a resolution of the Board of County Supervisors.

1.04 The Unassigned General Fund Balance should not be used to support recurring operating expenditures outside of the current fiscal year. The Unassigned General Fund Balance shall be used only to cover local and regional emergencies. If the Unassigned General Fund Balance is used for such emergencies, the County will take measures necessary to prevent its use in the following fiscal year by increasing General Fund revenues and/or decreasing its expenditures.

1.05 In the event the Unassigned General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the County shall restore the Unassigned General Fund Balance to the minimum level of seven and one-half percent (7.5%) of General Fund revenues within two (2) fiscal years following the fiscal year in which the event occurred. The plan to restore the Unassigned General Fund

Balance shall be included and highlighted in the County's Adopted Five-Year Plan.

1.06 Funds in excess of seven and one-half percent (7.5%) of the annual requirements of Policy No. 1.02 may be retained in the Unassigned General Fund Balance, used to supplement "pay as you go" capital outlay expenditures, prepay existing County debt, or be added to the Revenue Stabilization Reserve.

1.10 Committed Fund Balance – Revenue Stabilization Reserve

1.11 The County shall maintain a portion of the General Fund Balance as a "Revenue Stabilization" Reserve to provide the County with sufficient working capital and a margin of safety to withstand local and regional economic shocks, and unexpected declines in revenue without borrowing.

1.12 Except for the provisions contained in Policy No. 1.14 and Policy No. 1.15, the Revenue Stabilization Reserve will not be less than two percent (2.0%) of each year's General Fund revenues in every fiscal year of the Five-Year Plan.

1.13 The Revenue Stabilization Reserve can only be appropriated by a resolution of the Board of County Supervisors.

1.14 The Revenue Stabilization Reserve may be used to cover a portion of local and regional economic shocks and/or unexpected declines in the County's share of General Fund revenues greater than three percent (3%) as compared to the current Adopted Budget.

1.15 In the event of a local or regional emergency, the Revenue Stabilization Reserve may be appropriated in portion or entirety by a resolution of the Board of County Supervisors to provide for additional temporary funding of unforeseen emergency needs.

1.16 If the Revenue Stabilization Reserve is used, the County will take measures necessary to replenish its balance to the minimum level described within five (5) years following the year(s) in which it was used.

The plan to restore the Revenue Stabilization Reserve shall be included and highlighted in the County's Adopted Five-Year Plan.

1.17 Funds in excess of two percent (2%) of the annual requirement of Policy No. 1.12 may be retained in the Revenue Stabilization Reserve, transferred to the Unassigned General Fund Balance described in Policy No. 1.00, transferred to the Committed Fund Balance - Capital Reserve described in Policy No. 1.20, or used to replenish the Economic Development Opportunity Fund as described in Policy No. 1.30 or the Data Center Revenue Stabilization Reserve as described in Policy No. 1.40.

1.20 Committed Fund Balance – Capital Reserve

1.21 The County will maintain a "Capital Reserve" to provide the County with sufficient working capital and a margin of safety to withstand unexpected, but necessary, project cost overruns without additional borrowing. The target balance for the Capital Reserve shall be a minimum of two percent (2.0%) of the current Capital Projects Funds Appropriations included in the Adopted Six-Year Capital Improvement Program.

1.22 The Capital Reserve can only be appropriated by a resolution of the Board of County Supervisors for a new or existing capital project.

1.23 In the event the Capital Reserve is used to provide funding for critical capital projects, the County shall restore the Capital Reserve to the target level of two percent (2.0%) of the current Capital Projects Funds Appropriations within five (5) fiscal years following the fiscal year in which the event occurred. The plan to restore the Capital Reserve shall be included and highlighted in the County's Adopted Five-Year Plan.

1.30 Committed Fund Balance – Economic Development Opportunity Fund (EDOF) Reserve

1.31 The County will maintain an "Economic Development Opportunity Fund" (EDOF) Reserve to provide the County with a source of working capital that can be used to incentivize economic development in key targeted industries to support the Board's Robust Economy strategic goal of growing the commercial tax base. The target balance for the EDOF Reserve shall be $3,000,000.

1.32 The EDOF Reserve can only be appropriated by a resolution of the Board of County Supervisors.

1.33 The EDOF Reserve shall be replenished to the targeted $3,000,000 threshold at the end of each fiscal year after the requirements of Policy Nos. 1.02, 1.12, and 1.21 are met.

1.40 Committed Fund Balance – Data Center Revenue Stabilization Reserve

1.41 The County will maintain a "Data Center Revenue Stabilization" Reserve to provide the County with a source of working capital and a margin of safety to withstand shocks and unexpected declines in revenue generated by data centers without borrowing. The target balance for the Data Center Revenue Stabilization Reserve shall be 10% of the prior fiscal year audited tax revenue generated from data center computer equipment and peripherals.

1.42 The Data Center Revenue Stabilization Reserve can only be appropriated by a resolution of the Board of County Supervisors.

1.43 The Data Center Revenue Stabilization Reserve shall be replenished to the targeted 10% threshold at the end of each fiscal year after the requirements of Policy Nos. 1.02, 1.12, 1.21 and 1.31 are met.

Policy II
Fiscal Planning

The Annual Budget is one of the most important documents the County prepares since it identifies the programs and services to be provided and the means by which the programs and services are to be funded or financed.

2.01 The County will maintain a structurally balanced budget.

2.02 The County Executive will propose a budget prepared in compliance with the applicable sections of the *Code of Virginia,* the Financial and Program Planning Ordinance requirements included in Section 2-1, Government Services, Planning, Budgeting and Accountability of Chapter 2- Administration, of the *Prince William County Code* and in accordance with the guidelines established by the Government Finance Officers Association (GFOA) in its Distinguished Budget Award Program.

2.03 The County Executive will annually submit a Five-Year Plan for review and adoption by the Board of County Supervisors, including revenue and expenditure projections for the General Fund. The Five-Year Plan shall provide multi-year impacts of fiscal decisions and weigh the corresponding implications of tax rates and changes thereto and other revenue sources.

2.04 The Five-Year Plan shall provide for the County-School Revenue Sharing Agreement which splits the County's General Revenues with the Schools in accordance with the existing agreement approved by the Board of County Supervisors.

2.05 Every year of the Adopted Five-Year Plan must be balanced and limits expenditures and other uses of resources to annually available revenues. The County shall not adopt a budget that includes operating deficits or that requires the use of one-time resources to cover recurring expenditures.

2.06 The Annual Budget will contain the following:

a) Proposed personnel staffing levels;

b) Revenue estimates by major category;

c) Expenditure estimates by program levels and major expenditure categories;

d) A detailed schedule of capital projects;

e) Debt service summarized by project and identifies supporting amounts by fund; and

f) Any additional information, data, or analysis requested of management by the Board of County Supervisors.

2.07 The Annual Budget will not automatically replace lost State or Federal revenue with local tax support. Doing so will occur only after careful consideration of service level impacts to affected agencies during the annual budget process and in accordance with Policy No. 3.11.

2.08 The Annual Budget shall be adopted by the Board of County Supervisors in accordance with the requirements of § 15.2-2500 et seq. and § 22.1-93 of the *Code of Virginia*.

2.09 A quarterly report on the status of General Fund revenues, expenditures, budget, projections, and trends will be provided to the Board of County Supervisors within forty-five (45) days of the end of each quarter with the exception of the 4th quarter report. A preliminary 4th quarter report shall be provided to the Board of County Supervisors within ninety (90) days of the end of the quarter. The audited Annual Comprehensive Financial Report (ACFR) shall serve as the final 4th quarter report.

2.10 The unencumbered capital project balances and encumbered balances will be considered for re-appropriation by the Board of County Supervisors in the subsequent fiscal year by resolution amending the adopted budget.

2.11 The County will not balance the current budget at the expense of meeting future years' expenditures; for example, the County will not accrue future years' revenues or roll over short-term debt to avoid planned debt retirement. The County will not use debt to fund current operations.

2.12 If a deficit is projected during any fiscal year, the County will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using the Revenue Stabilization Reserve and/or the General Fund Unassigned Fund Balance, to the extent necessary to ensure a structurally balanced budget at the close of the fiscal year.

2.13 The Board of County Supervisors will annually appropriate a contingency budget to provide for unanticipated increases in service delivery costs and needs that may arise throughout the fiscal year. The contingency budget will be established at a minimum of $1,000,000 annually and may be allocated only by resolution of the Board of County Supervisors.

2.14 Executive Management and department heads are required to monitor revenues and control expenditures to prevent exceeding the amount of local tax support budgeted for their respective department and total departmental expenditure budget.

2.15 Budget transfers will provide sufficient agency operating flexibility while ensuring adherence to generally accepted accounting principles (GAAP) and the Board of County Supervisors' adopted policies, budget and appropriation amendments thereto.

2.16 The County will maintain a Capital Asset and Equipment Replacement Schedule which provides a five-year estimate of the funds necessary to maintain and replace the County's capital assets and equipment. The Capital Asset and Equipment Replacement Schedule will be updated as part of the Capital Improvement Program planning process.

2.17 The County will fully fund its Annual Required Contributions associated with its pension and other post-employment benefit obligations, as actuarially determined.

Policy III
Revenues

The County collects revenues from many sources, the largest of which is from real and personal property taxes, to provide programs and services consistent with the Board's Comprehensive and Strategic Plans and related long-term vision, goals and objectives. The structure, diversification, fluctuation, and collection of revenues are examined by rating agencies to determine the County's credit quality and ability to pay bondholders.

3.01 The County will strive to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.

3.02 Major revenue sources should provide for the following principles:

a) **Vertical Equity -** Revenue sources should provide appropriate treatment of taxpayers at different economic levels.

b) **Horizontal Equity -** Revenue sources should treat taxpayers with the same income or wealth equally.

c) **Neutrality -** Revenue sources should not unduly influence economic decisions by consumers or business except for targeted development or redevelopment programs approved by the Board of County Supervisors.

d) **Administrative and Compliance Costs -** Revenue administration and enforcement should not absorb an undue percentage of revenue collected.

3.03 The County will monitor all taxes to ensure equitable administration and collections are timely and accurate. The County will aggressively collect all taxes and related penalties and interest as authorized by the *Code of Virginia*.

3.04 The County will periodically recalculate the full costs of providing services to provide a basis for setting the associated service charge or fee. Full cost shall incorporate direct and indirect costs, including operations and maintenance, overhead, and charges for use of capital facilities, thereby setting fees at a level that is related to the cost of producing the good or service, unless otherwise restricted by law. The County will periodically examine the competitiveness of tax rates and fees and may establish new taxes and fees as needed and as permitted by law. It is recognized that competing policy objectives may result in user fee levels that recover only a portion of service costs.

3.05 The County Executive will provide the Board of County Supervisors with an estimate of the County's revenues annually for each year of the Five-Year Plan and in compliance with the Financial and Program Planning Ordinance requirements included in Section 2-1, Government Services, Planning, Budgeting and Accountability of Chapter 2 - Administration, of the *Prince William County Code*.

3.06 The estimate of the County's revenues shall be set at realistic and attainable levels, sufficiently conservative to avoid shortfalls, yet accurate enough to avoid a systematic pattern of setting tax rates that produce significantly more revenue than is necessary to meet expenditure, fund balance and reserve requirements.

3.07 A quarterly report on the status of the General Revenues, projections, and trends will be provided to the Board of County Supervisors in conjunction with Policy No. 2.09.

3.08 The County will assess all property annually as of January 1st in accordance with Title 58.1 of the *Code of Virginia*. Real property assessments shall be based on fair market value and follow standards established by the International Association of Assessing Officers (IAAO). Personal property assessments shall be based on the clean trade-in value as supplied by a nationally recognized pricing guide, or a percentage or percentages of original cost which reasonably approximate market value.

3.09 The County may provide, as appropriate, tax exemptions to churches and governmental entities pursuant to State code, local ordinances, and other guidelines. Charitable, benevolent, or educational institutions may seek public funding through the Community Partners Program and such requests must be submitted annually to the Office of Management and Budget as part of the annual budget process. Any consideration for exemption from the process should be based on benefits to and fiscal capacity of the County and subject to approval by the Board of County Supervisors.

3.10 The County will achieve maximum possible accuracy in its annual assessment to sales ratio when the annual January 1st assessment is compared to sales in the preceding calendar year. The County expects to achieve maximum possible accuracy by implementing state-of-the-art assessment practices. The County will maintain an average error, measured by the coefficient of dispersion (COD), and assessment to sales ratio better than the current professional standard which is ninety percent (90%) assessment to sales ratio and ten percent (10%) COD as published by the International Association of Assessing Officers (IAAO).

3.11 The County will pursue intergovernmental aid, including grants, for those programs and activities that address a recognized need and are consistent with the County's long-range objectives, and will attempt to recover all allowable costs associated with those programs. Any decision to pursue intergovernmental aid should be consistent with the County's Grants Management Policies and Procedures and include the consideration of the following:

a) Present and future funding requirements;

b) Cost of administering the funds;

c) Costs associated with special conditions or regulations attached to the grant award; and

d) When grants or other intergovernmental aid are reduced or eliminated, the program, service, or project the grant supported will be reduced by a commensurate amount in accordance with Policy No. 2.07.

Policy IV
Capital Improvement Program and Capital Assets

The County's capital assets are primarily in the form of infrastructure, facilities, site improvements, vehicles, and equipment. Dedicating resources to new capital investment and the maintenance of existing capital assets is appropriate for a growing community such as Prince William County. New and well-maintained capital assets support the delivery of programs and services to County residents, benefit economic development, and improve credit quality and the overall quality of life in Prince William County.

4.01 The County will invest a minimum of ten percent (10%) of the annual General Fund revenues allocated to the County's operating budget in the Capital Improvement Program. The amount invested can be in the form of debt service or other cash ("pay-as-you-go") contribution. The County will direct its annual allocation for its capital investments to projects that best support the County's Comprehensive and Strategic Plans and related long-term vision, goals, objectives, and County commissioned master plans.

4.02 The County Executive will annually submit a Six-Year Capital Improvement Program for review and adoption by the Board of County Supervisors. The Capital Improvement Program may include capital improvements for the County and all agencies for which the County sets tax rates, makes levies or approves budgets or programs.

4.03 The Capital Improvement Program shall be prepared in accordance with § 15.2-2239 of the *Code of Virginia* and the Financial and Program Planning Ordinance included in Section 2-1, Government Services, Planning, Budgeting and Accountability of Chapter 2- Administration, of the *Prince William County Code*.

4.04 The Capital Improvement Program shall include the following elements:

a) An implementation plan for each of the capital improvements;

b) A statement of the objectives of the Capital Improvement Program and the relationship with the County's Comprehensive and Strategic Plans and related long-term vision, goals and objectives; and

c) An estimate of the cost and anticipated sources of revenue for financing the capital improvements for each project and an estimate of the impact of each capital improvement on County revenues and the capital and operating budgets, including estimated debt service costs, if applicable.

4.05 The County will fund programs and activities identified in the Capital Improvement Program with the most appropriate revenue sources. Such revenues as the fire & rescue levy, proffers and user fees, such as solid waste and stormwater fees, are to be used exclusively for the purpose for which they were levied or collected.

4.06 The County will invest in ongoing, cyclical maintenance and/or replacement of existing capital assets, including facilities, systems, equipment, vehicles, apparatus, parks and technology, to prevent major breakdowns or deterioration, with the goal of extending the useful life. The County will maintain a schedule of needed repair(s), maintenance, and replacement(s) of existing capital assets with an estimate of associated costs. Cyclical maintenance should be prioritized to ensure that the most important needs are addressed first. Routine maintenance should focus on activities that preserve the useful life of the asset.

4.07 Upon completion of any capital project, the County will transfer remaining appropriated funds to the Capital Reserve.

4.08 When current revenues or resources are available for capital improvement projects, consideration will be given first to those capital assets with the shortest useful life, technology and/or to those capital assets whose nature makes them comparatively more difficult or expensive to finance with bonds or lease financing.

4.09 Nonrecurring revenues, which cannot be used to fund recurring costs and are not required to meet the objectives in Policy No. 1.00, 1.10, 1.20, 1.30 and 1.40, respectively, should be used for nonrecurring capital expenditures such as “pay-as-you-go” capital investment, special studies, master plans, or the early retirement of existing County debt.

Policy V
Debt Management

The County will maintain a high credit rating to assure taxpayers and investors that the County government is well managed and financially sound and to reduce borrowing costs. The County will prudently consider long-term debt financing using various debt instruments when deemed appropriate and after consideration of debt capacity and affordability.

5.01 The County will consider the project and its useful life and utilize the most appropriate debt instrument or other means to finance the project. Sources may include debt financing, "pay-as-you-go" capital investment, or other financing structures.

5.02 The County will adhere to the following guidelines when it finds it necessary to issue tax supported bonds:

a) Tax supported bonds will, whenever feasible; be issued on a competitive basis unless market conditions or the nature of the financing favors negotiated sales;

b) Average weighted maturities for General Obligation (GO) bonds of the County, and whenever possible for any type of annual appropriation debt, will be maintained at ten and one-half (10.5) years, or less;

c) GO bond issues, and whenever possible for any type of annual appropriation debt, will be structured to allow an equal principal amount to be retired each year over the life of the issue thereby producing a total debt service with an annual declining balance;

d) Annual net tax supported debt service expenditures shall not exceed ten percent (10%) of annual revenues or thirteen percent (13%) of General Fund plus Fire & Rescue Levy Fund expenditures;

e) Total bonded debt will not exceed three percent (3%) of the net assessed valuation of taxable real and personal property in the County;

f) Bond financing will be confined to projects which cannot otherwise be financed from current revenues; and

g) The term of any bond or lease obligation issuance will not exceed the useful life of the capital asset for which the borrowing is intended.

5.03 The County shall comply with all U.S. Internal Revenue Service (IRS) rules and regulations regarding issuance of tax-exempt debt, including arbitrage rebate requirements for bonded indebtedness, and with all Securities and Exchange Commission (SEC) requirements for continuing disclosure of the County's financial condition, and with all applicable Municipal Securities Rulemaking Board (MSRB) requirements, including SEC Rule 15c2-12.

5.04 The County shall comply with all requirements of the Public Finance Act as included in Title 15.2 of the *Code of Virginia* and other legal requirements regarding the issuance of bonds and certificates of the County or its debt issuing authorities.

5.05 The issuance of variable rate debt by the County will be subject to the most careful review and will be issued only in a prudent and fiscally responsible manner.

5.06 The County will adhere to the following guidelines when it finds it necessary to issue revenue bonds:

a) For any bonds or lease anticipation or appropriation debt in which the debt service is partially paid from revenue generated by the project and partially paid from tax sources, the portion of the bond or lease to the extent that its debt service is paid from non-tax sources shall be deemed to be revenue bonds and are excluded from the calculation of the annual debt service limitation in Policy No. 5.02(d) and No. 5.02(e);

b) Revenue bonds of the County and any of its agencies will be analyzed carefully by the Chief Financial Officer/Director of Finance and applicable Department of Finance staff for fiscal soundness. The issuance of County revenue bonds will be subject to the most careful review and must be secured by covenants sufficient to protect the bondholders and the credibility of the County;

c) Whenever feasible, revenue bonds will be issued on a competitive basis and will be structured to allow an approximately equal annual debt service amount over the life of the issue;

d) Debt service reserve funds, when required, will be provided to adequately meet debt service requirements in the subsequent years;

e) Interest earnings on the debt service reserve fund balances will only be used to pay debt service on the bonds; and

f) The term of any revenue bond or lease obligation issue will not exceed the useful life of the capital project or equipment for which the borrowing is intended.

5.07 The County will not use debt financing to fund current operations.

5.08 The County does not intend to issue bond anticipation notes (BANS), tax anticipation notes (TANS), revenue anticipation notes (RANS), or pension obligation bonds (POBS). If a BAN is issued for a capital project, the BAN will be converted to a long-term bond or redeemed at its maturity.

Policy VI
Cash Management

Cash management is the practice of safeguarding and maximizing the income earned on liquid assets. Cash, liquidity, and investment management activities shall be conducted prudently. The County shall maintain adequate management procedures, controls, and policies to protect the County's liquid assets.

6.01 The Chief Financial Officer/Director of Finance, as Chief Investment Officer, shall invest all funds of the County according to four criteria, in order of importance: (1) legality, (2) safety (3) liquidity, and (4) yield.

6.02 The County shall comply with all requirements of the Virginia Security for Public Deposits Act as included in § 2.2-4400 of the *Code of Virginia* regarding securing public deposits.

6.03 All County funds will be invested in compliance with the Investment of Public Funds Act contained in § 2.2-4500 through § 2.2-4518 of the *Code of Virginia*.

6.04 The County shall maintain and comply with a written Investment Policy approved and adopted by the Board of County Supervisors.

6.05 A formal Investment Oversight Committee, as established by the Board of County Supervisors, shall monitor the performance and structure of the County's investment portfolio. The Investment Oversight Committee shall provide a quarterly report on investment performance and structure to the Board of County Supervisors, along with related meeting minutes.

Policy VII
Personnel

Human capital costs are the most significant portion of the County's operating budget. The strategic management of personnel requires comprehensive planning and analysis to develop, implement and evaluate programs that support employee performance of goals and objectives, productivity, retention of the workforce and succession planning.

7.01 The County shall maintain a written classification system, compensation plan and personnel policies in accordance with the Prince William County Code, Chapter 19 - Personnel issued pursuant to § 15.1-7.1 and § 15.1-7.2 of the *Code of Virginia* and all other applicable sections of State and Federal laws.

7.02 County personnel shall adhere to legal, moral, ethical, and professional standards of conduct in the fulfillment of their professional responsibilities, including the Vision, Values, Ethics and Leadership at All Levels philosophies as promulgated by the County Executive.

7.03 The County shall have an employee compensation policy to provide competitive salaries and benefits and will work in good faith with legally established collective bargaining unit(s) for the purpose of entering into a collective bargaining agreement.

Policy VIII
Internal Control and Financial Reporting

Internal control or the system of internal controls is broadly defined as a process, administered by the County's management and other personnel, designed to provide reasonable assurance that the organization will achieve its objectives in effectiveness and efficiency of operations, reliability and accuracy of financial reporting and compliance with applicable laws, regulations and policies of Prince William County Government. Financial reporting provides the informational infrastructure for the County.

8.01 The County will maintain a system of internal controls to maintain accountability to taxpayers, bondholders, the public and the Board of County Supervisors, meet established goals and objectives, promote adherence to laws and regulations, encourage sound financial and operational practices, develop and maintain accurate, reliable and timely financial and management data, safeguard assets/resources, prevent, detect and deter fraud, and facilitate both internal and external audits.

8.02 The County will adhere to an Internal Control Policy and establish related internal control policies and procedures based on the *Internal Control – Integrated Framework* and *Enterprise Risk Management – Integrated Framework* developed by the Committee on Sponsoring Organizations (COSO). This compilation will provide the components of the control environment, risk assessment, control activities, communication and monitoring that will work together to provide reasonable assurance of meeting the County's operational, compliance and reporting goals.

8.03 The County will maintain an independent internal audit function to enhance the County's overall control environment. The internal audit function shall adhere to the Institute of Internal Auditors' *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* as well as *Generally Accepted Government Auditing Standards*.

8.04 The County will establish and maintain a Board Audit Committee to govern and provide oversight of the County's internal control environment. The Board Audit Committee will coordinate activities between the Board of County Supervisors and the independent internal auditor(s) in connection with the performance and results of internal audits as stipulated by the Board adopted annual Internal Audit Plan.

8.05 The County shall have all their accounts and records, including all accounts and records of its constitutional officers, audited annually in accordance with the applicable sections of the *Code of Virginia*.

8.06 The County will contract for an annual comprehensive financial audit, including an audit of Federal grants in accordance with 2 CFR Part 200, *Uniform Guidance* to be performed by an independent external auditor (public accounting firm). The independent external auditor will express an opinion on the County's financial statements.

8.07 The County's Annual Comprehensive Financial Report (ACFR) will be prepared in accordance with the *Code of Virginia and the Uniform Financial Reporting Manual for Virginia Counties*, issued by the Commonwealth of Virginia Auditor of Public Accounts (APA) and the guidelines established by the Government Finance Officers Association (GFOA) in its Certificate of Achievement for Excellence in Financial Reporting Award Program.

8.08 The County will comply with United States generally accepted accounting principles (GAAP) in its accounting and financial reporting, as contained in the following publications:

a) *Codification and Pronouncements of Governmental Accounting and Financial Reporting Standards*, issued by the Governmental Accounting Standards Board (GASB);

b) *Codification and Pronouncements of Accounting and Financial Reporting Standards, issued by the Financial Accounting Standards Board*, (FASB);

c) *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada;

d) *State and Local Governments – Audit and Accounting Guide*, an industry guide published by the American Institute of Certified Public Accounts (AICPA); and

e) *Government Accounting Standards*, issued by the Comptroller General of the United States.

8.09 The County will establish and maintain a Joint Audit Committee to govern and provide oversight of the County's and School Board's annual external audit. The Joint Audit Committee will coordinate activities between the Board of County Supervisors, School Board, and the independent external auditor(s) in connection with the performance and results of the annual comprehensive financial audit of the County and its related component units.

Policy IX
Risk Management

Risk Management functions to protect and preserve the physical and human resources of the County for the successful continuation of operations to successfully provide programs and services to carry out the County's goals and objectives. Risk Management entails identifying inherent risks (Risk Identification), implementing preventative measures to eliminate, control or otherwise mitigate the risk(s) (Risk Control), and when losses do occur, determining the best method to finance the losses (Risk Financing).

9.01 The County will manage its risk and limit risk exposure in a professional and prudent manner.

9.02 The County shall make diligent efforts to protect and preserve County assets against losses that could deplete County resources or impair the County's ability to provide programs and services. The County shall reduce its exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.

9.03 The County shall manage its exposure to risk through the most appropriate means of self-insurance and, or the purchase of traditional insurance to include, but not limited to, the following areas:

a) General liability;

b) Automobile liability;

c) Public officials' errors and omissions;

d) Police professional liability;

e) Property loss and workers' compensation;

f) Environmental liability;

g) Cyber security liability; and

h) Terrorism liability.

9.04 The County will further control its exposure to risk using hold harmless agreements in County contracts, employing stop-loss limits, and by requiring contractors doing business with the County to carry appropriate levels of liability insurance.

Policy X
Procurement

The purpose of the procurement function is to obtain competitive prices for goods and services while delivering the best value for the County. A robust procurement strategy can help the County gain better visibility into its spending and identify areas where savings can be achieved. The strategy to acquire goods and services must adhere with applicable laws and regulations governing the procurement process.

10.01 The Chief Procurement Officer will maintain an effective and efficient purchasing system to provide needed goods and services in a timely manner to avoid interruptions in the delivery of programs and services.

10.02 The County will endeavor to obtain goods and services as economically, effectively, and efficiently as possible.

10.03 The County will establish procurement regulations adopted by the Board of County Supervisors and consistent with all applicable State and Federal laws. All goods and services will be procured in compliance with the Virginia Public Procurement Act as defined in § 2.2-4300 through § 2.2-4377 of the *Code of Virginia.*

Policy XI
Economic Development

The County's economic base is an important element of and has a dramatic influence on the County's financial health in determining the County's quality of life and credit rating. The goal of economic development is to improve the County's economic base by encouraging new businesses to locate in Prince William County, retaining existing businesses, and facilitating the expansion of businesses.

11.01 The County shall continue to expand and diversify its economic base by attracting industrial and commercial businesses to the County. Special emphasis should be given to targeted industries and industrial and commercial enterprises that will employ the local labor force. The attraction of such business and industry will be consistent with the long-term vision, goals, and objectives defined by the County's Comprehensive and Strategic Plans.

11.02 The County will endeavor to utilize a network of public facilities that link planned industrial and commercial areas with its growing residential areas.

11.03 The County will endeavor to increase, to the greatest degree possible, its commercial/industrial tax base and at place professional employment within the County.

11.04 The County will perform a due diligence analysis of each economic development investment to evaluate the level of each type of risk associated with the economic development investment. The due diligence evaluation shall be presented to the Board of County Supervisors along with the economic development investment.

11.05 The County will perform a fiscal impact analysis on each economic development investment that evaluates the economic costs, economic benefits, intrinsic benefits and the levels of each type of risk associated with the economic development investment.

11.06 The County shall maintain and comply with the written Economic Development Land Bank Policies as approved and adopted by the Board of County Supervisors whenever contemplating the purchase of land for economic development purposes.

11.07 The County shall maintain and comply with the written Policy Guidelines for Approval of the Creation of a Community Development Authority (CDA) as approved and adopted by the Board of County Supervisors whenever contemplating the creation of a separate legal CDA to further the economic development or community development growth goals of the County.

Policy XII
Policy Review

12.01 The Board of County Supervisors (BOCS) will review and approve by resolution the financial policies contained in this document a minimum of once every four (4) years, contiguous with the term of the newly elected BOCS. The Chief Financial Officer/Director of Finance shall review the *Principles of Sound Financial Management* on an annual basis to determine if the financial policies require update by the Board of County Supervisors in advance of the scheduled four-year cycle.

12.02 The County Executive shall provide the Board of County Supervisors a written status report concerning Prince William County's compliance with the *Principles of Sound Financial Management* on an annual basis.

Glossary

Ad Valorem Tax. A tax calculated "according to the value" of property. Such a tax is based on the assessed valuation of real property and, in certain cases, on a valuation of tangible personal property. (The principles define measuring value.) The tax is a lien on the property enforceable by seizure and sale of the property. General restrictions, such as overall restrictions on rates, or the percent of charge allowed, apply.

Annual Debt Service Expenditures. Annual debt service for measuring debt capacity for the County shall include debt service on outstanding:

- General Obligation Bonds of the County;
- Literary Fund Loan notes;
- Bonds issued to the Virginia Public School Authority, Industrial Development Authority, and the Virginia Resources Authority; and
- All annual appropriation debt to the extent that it is supported by tax revenue, excluding Revenue Bonds.

Annual Expenditures. Annual expenditures for measuring debt capacity shall include the expenditures of the General Fund and the Fire & Rescue Levy Fund.

Annual Revenue. Annual revenue for measuring debt capacity shall include the revenues of the General Fund and special revenue funds for the fiscal year in which the debt service expenditures occur.

Arbitrage. The gain which may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates.

Assessed Valuation. The appraised worth of property as set by a taxing authority through assessments for purposes of ad valorem taxation. The method of establishing assessed valuation varies from state to state, with the method generally specified by State law. For example, in certain jurisdictions the assessed evaluation is equal to the full or market value of the property; in other jurisdictions the assessed valuation is equal to a percentage of the full market value.

Bond. A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic principal and interest payments.

Bond Anticipation Note (BAN). Short-term interest-bearing security issued in anticipation of a long-term bond issue. The investors typically rely upon the sale of a subsequent issue of securities to pay the BAN at maturity.

Capital Improvement Program. The Capital Improvement Program (CIP) is a six-year plan of major, nonrecurring facility and infrastructure expenditures that expand or improve the County's physical assets. Projects shown in the CIP include physical descriptions, implementation schedules, cost and funding source estimates, statements of relationship to the Strategic Plan and Comprehensive Plan, and projected benefits to the community in terms of service delivery.

Coefficient of Dispersion. The average deviation of a group of numbers from the median expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio. This is a measure of the dispersion of a group of measurements relative to the median (center point) of that group. This statistic is used as a measure of the dispersion or variation in a distribution.

Committed Fund Balance. Amounts earmarked for specific purposes pursuant to constraints imposed by formal action of the County's governing body.

Continuing Disclosure. The Securities and Exchange Commission (SEC) requires dissemination to interested parties of the County's annual financial statements. They also require that interested parties should be immediately notified of any material event (or events or information deemed material) that affects the County's ability to make payments to bondholders in accordance with SEC Rule 15c2-12.

Debt Service. The amount necessary to pay principal and interest requirements on outstanding obligations for a given year or series of years.

Debt Service Reserve. The account into which funds are placed to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. A typical reserve requirement might be the maximum aggregate annual debt service requirement for any year remaining until the bonds reach maturity.

Fund Balance. A measurement of the net financial resources available to finance the government.

General Obligation Debt. Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

Lease. An obligation wherein a lessee agrees to make payments to a lessor in exchange for the use of certain property. The term may refer to a capital lease or to an operating lease.

Pension Obligation Bond. A bond issued to pay an obligation to the pension fund or system in which its employees or others are members.

Revenue Anticipation Note. A short-term bond issued to finance a project, with the expectation that the project's future revenue will pay back the bondholders.

Revenue Bonds. Bonds on which the debt service is payable from the revenue generated from the operation of the project being financed or from a category of facilities, or from other non-tax sources of the County.

Tax Anticipation Note. A debt security issued to raise money for current operations or capital projects before tax revenues are received. TANs are a type of municipal bond where the bond proceeds are secured by future tax revenue.

Tax Supported Bonds. Bonds for which the funding used to make annual debt service expenditures are derived from tax revenue of the County’s General and Special Revenue Funds.

Total Bonded Debt. For purposes of measuring debt capacity, total bonded debt shall include total outstanding principal for:

- General Obligation Bonds of the County;
- Literary Fund Loan notes;
- Bonds issued to the Virginia Public School Authority, Industrial Development Authority, and the Virginia Resources Authority; and
- All annual appropriation debt to the extent that it is supported by tax revenue, excluding Revenue Bonds.

Unassigned Fund Balance. Used as a measure of the amount of resources a jurisdiction has available for spending, including its ability to meet special needs and withstand financial emergencies. In these policies, unassigned fund balance means it is neither earmarked nor reserved for other uses. It is available for discretionary spending with approval by the Board of County Supervisors.

Variable Rate Bond or Note. A bond or note on which the interest rate is reset periodically. The interest rate is reset either by means of an auction or through an index.

Prince William County

Department of Finance
1 County Complex Court
Prince William, VA 22192
www.pwcva.gov