



# MONTGOMERY COUNTY

*A Golden Opportunity!*

## **Financial Policies**

Montgomery County has developed a comprehensive set of financial policies that are consistent with the County's goals and objectives. Specific attention has been given to make sure that these policies are both consistent and relationally sound. Financial policies are an integral part of the development of service, capital, and financial plans and the budget. They provide the basis for decision-making and continue Montgomery County's tradition of financial stability.

The safe-keeping, proper use and management of the County resources is a very serious responsibility. This task shall be conducted within Montgomery County in such a way that the County shall be fully accountable to the public for its fiscal activities. A spirit of openness and transparency shall be the context of the County's financial management program policies. These policies have the major objectives to be achieved that include:

- To link long-term financial planning with short-term daily operations and decision making.
- To maintain and improve the County's financial position.
- To maintain and improve the County's credit ratings by meeting or exceeding the requirements of rating agencies through sound financial policies.
- To maintain and increase investor confidence in the County and to provide credibility to the citizens of the County regarding financial operations.
- To comply with the North Carolina Budget and Fiscal Control Act and the policies of the North Carolina Local Government Commission (the "LGC").
- To effectively conduct asset-liability management of the County's balance sheet.
- To improve and maintain adequate fund balance.

### **FP 1: Reserved and Unreserved Funds**

*The County will maintain reserved and unreserved stabilization funds at levels sufficient to protect the County's credit as well as its financial position from emergencies.*

Montgomery County seeks to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. Stabilization funds are called by many names including rainy day funds, unreserved, undesignated fund balances, and contingency funds. These funds are used at a government's discretion for many purposes: to address temporary cash flow shortages; to fund emergencies; unanticipated economic downturns; and one-time opportunities.

These funds provide flexibility to respond to unexpected opportunities that may help a government achieve its goals. The minimum and maximum amounts to be accumulated are

based on the types of revenue, the level of uncertainty associated with revenues, the condition of capital assets, or the County's level of security with its financial position.

Revenue projections are conservative and authorized expenditures are closely monitored. In stable economic times, the combination of these two strategies led to revenue collections higher than actual expenditures. The accumulation of these reserves protects the County from uncontrollable increases in expenditures or unforeseen reductions in revenue, or a combination of the two. It also allows for the prudent financing of capital construction and replacement projects.

Montgomery County maintains reserves that are required by law or contract and that serve a specific purpose. These types of reserves are considered restricted and are not available for other uses. Within specific funds, additional reserves may be maintained according to adopted policies. All expenditures of reserves must be approved by the Board of Commissioners (the "Board"). This may occur during the budget process or throughout the year.

The following summarizes the County's policy on reserved and unreserved ending fund balances:

*1. Unreserved Fund Balances*

- In accordance with State statute, appropriated fund balance in any fund will not exceed the sum of cash and investments less the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts.
- The County will strive maintain a General Fund unreserved and undesignated fund balance that significantly exceeds the minimum eight percent (8%) required by the LGC. The percentage is to be determined by dividing the unreserved and undesignated fund balance amount by actual expenditures. The target goal of the County for the General Fund unreserved and undesignated fund balance shall be minimum of 15% with a goal of 20% of the actual expenditures of the then completed fiscal year.
  - Purpose of Reserve: These funds will be utilized to avoid cash flow interruptions, generate interest income, eliminate the need for short-term borrowing, and maintain the County's credit ratings.
  - Reserve Drawdown: The fund balance may be purposefully drawn down below the target percentage for emergencies, nonrecurring expenditures, or major capital projects.
  - Reserve Replenishment: If the fund balance falls below the target percentage for two consecutive fiscal years, the County will replenish funds by direct appropriation in the next budget developed for the fiscal year after the occurrence is known. In that instance, the County will annually appropriate 25% of the difference between the target percentage level and the actual balance until the target level is met. In the event appropriating 25% is not feasible, the County will appropriate a lesser amount and shall reaffirm by Board resolution its commitment to fully replenish the fund balance over a longer period of time.

- Any General Fund unreserved and undesignated fund balance that exceeds the target goal range may be transferred for the following uses:
  - Disaster Recovery
  - Post Employment Health Benefits Liability
  - Other designations as designated by the Board
- The amount that budgeted debt service exceeds actual debt service expenditures for debt issues subject to a swap shall be reserved up to the potential swap termination payment as of each June 30th.
- General Fund: The General Fund shall maintain an unreserved fund balance equal to at least 15% of the total audited General Fund expenditures for the previous fiscal year. These funds are to be left in the County’s general operating cash and investment accounts for the purpose of floating the County’s operations throughout the fiscal year.
- Enterprise Fund: The Enterprise Fund shall maintain an unreserved fund balance equal to at least 15% of the total audited Enterprise Fund Operating Expenses for the previous fiscal year. These funds are to be left in the County’s enterprise general operating cash and investment accounts for the purpose of floating the County’s operations throughout the fiscal year.
- Capital Projects Fund: The Capital Projects Fund shall maintain an unreserved fund balance equal to at least 20% of the total audited Capital Projects Fund Expenditures for the previous fiscal year. These funds are to be left in the County’s capital project general operating cash and investment accounts for the purpose of floating the County’s operations throughout the fiscal year.

2. *Reserved Fund Balances*

- All Reserved Fund Balances shall be fully funded and set aside. The total set aside in this account is to be equal to the cumulative total of all “Reserved for Fund Balances” for the previous fiscal year. These fund balances may only be used for the express purpose of funding expenditures directly related to the specified fund.

3. *Liabilities*

- As a matter of policy, the County will maintain a separate account for Utility Deposits equal to the prior year audited totals. This account is only updated on an annual basis when the final audit is complete. These funds balances may only be used for the purpose of refunding utility deposits or paying delinquencies related to the account.

**FP 2: Revenue**

*The County will design, maintain and administer a revenue system that will assure a reliable, equitable, diversified and sufficient revenue stream to support desired County services.*

Since the principle revenue stream for the government is determined by taxes, State and Federal funding, and the fees and charges that are established, it is important that the County adopt policies that identify the manner in which fees and charges are set and the extent to which they

cover the cost of the service provided. A revenue system that requires the identification of both the cost of the program and the portion of the cost that will be recovered through fees & charges allows the County and its citizens to develop a better understanding of the cost of services and to consider the appropriateness of established fees and charges.

The County will develop conservative projections based on the following:

1. Ad Valorem Tax – As provided by the North Carolina Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows: Assessed valuation will be estimated based upon historical trends and growth patterns in a conservative manner.
  - The estimated percentage of collection will not exceed the actual collection percentage of the preceding fiscal year, in accordance with State law.
  - The property tax rate will be set each year based upon the costs of providing general governmental services, meeting debt service obligations and building or maintaining any reserves or fund balances the Board deems necessary.
2. User Fees – The Board will set user fees annually by listing such fees within the Annual Budget Ordinance. The user fees will maximize charges for services that can be individually identified and where costs are directly related to the provision of or to the level of service provided. Emphasis of user fees results in the following benefits:
  - The burden on the Ad Valorem tax is reduced.
  - User fees are paid by all users, including those exempt from property taxes.
  - User fees help minimize subsidization in any instance where there are requirements in order to qualify for the use of the service and the service is not provided to the general public.
  - User fees produce information on the demand level for services and help to make a connection between the amount paid and the services received.
3. Interest Income – Interest income is subject to variability based upon changes in prevailing interest rates, which can not be predicted with certainty. Such revenue shall therefore be budgeted in a conservative manner within the Annual Budget Ordinance and shall comply with the Asset – Liability Management section of this policy, FP 16.
4. Grant Funding – Staff will pursue opportunities for grant funding. Application for grant funding will be made after a grant has been evaluated for consistency with the Board’s goals and compatibility with County programs and objectives. Staff will notify the Board of any intention to apply for a grant. Staff must have Board approval to accept a grant for any amount over \$50,000 and for any grant that requires a local dollar match. All awarded grants can only be accepted by Board action at which time the related budget shall be established.
  - Grants that have been awarded in prior years and are recurring in nature will be included and addressed through the annual budget process.
  - Grants that fund operating expenditures but have a funding termination date must fully disclose that fact to the Board prior to acceptance.
  - The grant manager for each grant shall be the related department head. The grant manager is responsible for all grant monitoring, compliance and reporting. The grant manager will provide copies of all documents to the Finance Department. The Finance Department will maintain a grant file by fiscal year for each active grant.

- For grants involving federal funds, the grant manager is responsible for checking the list of federally debarred contractors prior to awarding any contracts.
5. Budgetary Responsibilities – Revenue initiating departments shall develop initial budget estimates of applicable revenues. Those estimates are to be supported by variables (base, rate, etc.) that comprise such revenue. Monitoring of the revenue budget shall be performed by the department and the Finance Department in a timely manner throughout the fiscal year and shall include an analysis of actual versus budgeted variances. Compliance of revenue with all laws and/or regulations is primarily the responsibility of the revenue initiating department.
  6. Franchise Fees – Franchise fees is a contract between the County and a company that outlines certain requirements that must be met in order for the company to use the county's (public) right of way.
  7. Landfill Fees – Landfill fees is a contract between the County and a company that outlines certain requirements that must be met in order for the company to use and operate the county's landfill.

To that end, the County has established the following goals that are used to accomplish this policy:

1. The County will seek to establish all user charges fees at a level related to the full costs (operating, direct, indirect and capital) of providing the service. The County will review these fees and charges annually in the budget process and target rates that meet the cost to serve – particularly in the County's key businesses (Public Safety, Planning and Zoning, Building Inspections, Register of Deeds, Public Works, Water, Wastewater, Parks & Recreation, etc.). In any event, all enterprise funds should be self-supporting.
2. Costs of service include direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital (depreciation and debt service). A government may choose not to recover all costs, but it should identify such costs. Reasons for not recovering full costs should be identified and explained. State and local law may govern the establishment of fees and charges.
3. The County will consider market rates and charges levied by other businesses and municipalities for like services in establishing rates, fees and charges. These fees will be reviewed through the County's annual rate survey.
4. One-time or special revenues shall not be used to finance ongoing County operations but rather be used for the funding of special projects.
5. An aggressive policy of seeking the collection of delinquent utility and other fee accounts will be maintained.
6. In determining revenue projections - and where judgment is required - conservatism shall be the rule.

### **FP 3: Diversified Revenue Base**

*The County will annually review its revenue source to maintain a diversified revenue base*

Montgomery County is committed to a diverse revenue base. Since all revenue sources have particular characteristics in terms of stability, growth, sensitivity to inflation or business cycle effects, and impact on tax and rate payers - a diversity of revenue sources can improve a government's ability to handle fluctuations in revenues and potentially help to better distribute the cost of providing services.

The County will identify approaches that will be used to improve revenue diversification. In accomplishing this policy, the County will analyze the sensitivity of revenues to changes in rates, the fairness of the tax or fee, administrative aspects of the revenue source, and other relevant issues.

Over time the County will strive to improve its revenue diversity to the extent feasible. Since the County is statutorily limited as to the types of revenues it may raise, it may consider options to enhance flexibility within the constraints of available revenue sources.

### **FP 4: Use of One-Time Revenue**

*The County will limit the use of one-time revenues to pay for ongoing expenditures of the government*

By definition, one-time revenues cannot be relied on in future budget periods. Since the use of one-time revenues can have disruptive effects on services due to non-recurrence of these sources, the County will dedicate one-time revenues (e.g. infrequent sales of government assets, bond refunding savings, infrequent revenues from development, and grants) to be used on expenditures appropriate startup costs, stabilization, special projects, and capital purchases.

Any use of revenue that adds to the ongoing expenditure base will be carefully reviewed and minimized (e.g., capital expenditures that significantly increase ongoing operating expenses without a sustainable and offsetting long-term revenue plan).

### **FP 5: Revenue Classification**

*The County will annually evaluate all revenues, determine those that are considered to be unpredictable, and determine the best use of those revenues*

A financial plan for governments should take into account the unpredictable nature of key revenues. This ensures that a government understands the potential impact on its ability to cover service costs and develops contingency plans in advance to address unpredictable revenue fluctuations. Specific allocation and contingency plans do not have to be developed for all unpredictable revenues, but become increasingly necessary as the size or unpredictability of the revenue source increases.

The County will annually identify major revenue sources it considers unpredictable and define how these revenues may be used. Unpredictable revenue sources cannot be relied on as to the level of revenue they will generate. Particularly with major revenue sources, it is important to consider how significant variation in revenue receipts will affect the government's financial outlook and ability to operate programs in the current and future budget periods.

For each major unpredictable revenue source, the County will identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, the County will identify the expected or normal degree of volatility of the revenue source. For example, revenues from a particular source may fluctuate, but rarely, if ever, fall below some predictable minimum base. The County will decide, in advance, on a set of tentative actions to be taken if these revenue sources generate revenues substantially higher or lower than projected. The plans should be publicly discussed and used in budget decision making. Unless otherwise dedicated, unpredictable revenues will go toward fund balance.

#### **FP 6: Operating Transfers**

*The County will quantify operating transfers from the utility system to cover general fund expenses.*

The County has traditionally made operating transfers from the Utility Fund to the General Fund. The Board has determined that the County needs to maintain the competitiveness of the utility system and to reduce the General Fund's need for Utility Fund transfers. These transfers should be established at a level that is supportable by current utility business practices.

In quantifying these transfers, the County will develop a formula designed through the rate model for determining the cost of the transfer. This transfer will include the cost of indirect cost and those cost associated with time spent from Finance, County Manager, Human Resources, Information Technology, and Public Buildings.

#### **FP 7: Operational Reporting**

*County staff will provide to the Board a report on the operating results of the County*

All excess revenue collected by Montgomery County that exceeds the projected budget revenue figure from a specific revenue category for each fiscal reporting period must be reported to the Board on a monthly basis. The expenditure of any and all excess revenue will be at the Board's discretion and cannot be utilized within the County budget without the Board's approval.

Likewise, all expenditures that exceed the projected budget expense figures in excess of \$5,000 on a departmental level must be reported to the Board in writing by the next scheduled Board meeting. Expenditures that would cause an increase above the \$5,000 cap on a departmental level cannot be made without prior approval of the Board.

Cost savings that may occur within a specific department can be utilized within that particular department; however, this cost savings cannot be transferred to another department without prior approval of the Board.

## **FP 8: Adoption of a Balanced Budget**

### ***The County will annually adopt an Operating Budget***

According to the Local Government Budget and Fiscal Control Act (LGBFCA) (G.S. 159-8(a)), the County will adopt a balanced operating budget and provide full disclosure when a deviation from a balanced operating budget is planned or when it occurs. This balanced budget will ensure that all operating revenues are equal to, or exceed, all operating expenditures at adoption and at year-end. Any increase in expenses, decrease in revenues, or combination of the two that would result in a budget imbalance will require budget revision, rather than spending unappropriated surpluses or designated reserves to support ongoing operations. Any year end operating surpluses will revert to unappropriated balances. In order to correct the imbalance caused by reduction in the budget amount in expenses, the County Manager can internally revise the budget without Board approval as long as the dollar for expenses is less than the advertised dollar amount. Any other type of revision or amendments will require Board approval.

Montgomery County's annual budget appropriation will cover the twelve-month period beginning July 1 and ending June 30 of the following year. The proposed budget document is to be presented to the Board for their consideration no later than June 1<sup>st</sup> of each year with adoption of the approved ordinance by July 1<sup>st</sup> of each year (G.S. 159-13(a)). According to state law the following guidelines must be adhered to:

- At least ten days must pass between submission of the budget and the adoption of the budget ordinance.
- On the same day that the budget is submitted to the Board, the County Manager must file a copy of it in the office of the Clerk to the Commissioners where it is available to the public and the press.
- The Clerk to the Commissioners must publish a notice that the budget has been delivered to the Board and is available for public inspection. This advertisement must also note the time and place of the required public hearing.
- During the interval between submission and adoption, the Board may conduct its review at both regular and special meetings. At least one of these dates must be a public hearing at which any person who wishes to comment may.
- The Open Meetings law (G.S. 143-318.9 to 318.18) applies to budget preparation and adoption process.

Budgets shall be prepared at the General Fund level and provide the basis for the County's financial management system. The adopted appropriations by fund shall constitute the maximum expenditure authorization for that fund and can be amended only by action of the Board. The budget shall be developed in conjunction with a stated program of performance objectives and measures with which to gauge progress towards meeting those objectives.

The following guidelines will be used in the preparation of the budget document:

1. Current appropriations in all funds are limited to the sum of available, unencumbered reserve balances and revenues estimated to be received in the current budget period.
2. General Fund expenditures and subsidy appropriations for mandated and priority programs are to be made against current revenue sources and not dependent upon uncertain reserves or fluctuating prior period cash balances.
3. Special Revenue Funds are supported by special levies and fees, grants or intergovernmental revenues. Expenditures in these funds are strictly limited to the mandates of the funding source. Special Revenue Funds are not to be used to subsidize other funds, except as required or permitted by program regulations.
4. All operations of the Enterprise Fund will be self-supporting entities. The County will conduct an annual review of fee structures, charges for services, and other operating revenues and expenditures.
5. A five year Capital Improvements Program shall be prepared and updated each year. The operating impact of each project shall be identified and incorporated into annual operating budgets. Capital assets shall be purchased and maintained on a regular schedule. Within legal limits and the constraints of operating budgets, debt shall be issued for the purchase of capital assets, including major renovations.
6. For purposes of this policy, the cash basis of accounting are used in defining revenues and expenditures.
7. It will be the duty of the County Manager to take action to bring the budget into balance if adjustments are needed in the course of a fiscal period.

#### **FP 9: Delivery of Services**

*The County will identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.*

The County will operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of fund balance accumulated through prior years.

The County shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions are outlined separately within these policies. Expenditure deferrals into the

following fiscal year, short-term loans, or use of onetime revenue sources to balance the budget will be avoided.

The Finance Director is charged with performing periodic staff and third-party reviews of County programs for both efficiency and effectiveness. Privatization and contracting with other governmental agencies will be evaluated as alternatives to service delivery. Programs that are determined to be inefficient and/or ineffective are to be reduced in scope or eliminated.

Montgomery County makes every effort to maximize any discounts offered by creditors / vendors. Staff shall also use competitive bidding to attain the best possible price on goods and services.

### **FP 10: Debt Policy**

***The County will adhere to a debt policy that ensures that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality.***

Issuing debt commits the County's revenues several years into the future, and may limit the County's flexibility to respond to changing service priorities, revenue inflows, or cost structures. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated.

The County plans long- and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Finance Director oversees and coordinates the timing, issuance process and marketing of the County's borrowing and capital funding activities required in support of the capital improvement plan.

This debt policy recognizes a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that the County maintains a sound debt position and that credit quality is protected. Components of the debt policy are as follows:

- The County will confine its long-term borrowing to capital improvements and follow a policy of full disclosure on every financial report and bond prospectus. In no case will General obligation debt be used for self-supporting enterprise activity. The County will use voter-approved general obligation debt to fund general-purpose public improvements that cannot be financed from current revenues.
- Debt will only be incurred for financing capital assets that, because of their long-term nature or because of budgetary restraints, cannot be acquired from current or budgeted resources. Debt will not be used for operational needs. Debt financing can include general obligation bonds, revenue bonds, certificates of participation, lease/purchase agreements, special obligation bonds, or any other financing instrument allowed under North Carolina law.

- The County will seek to structure debt and to determine the best type of financing for each financing need based on the flexibility needed to meet project needs, the timing of the project, taxpayer or rate payer equity, and the structure that will provide the lowest interest cost in the circumstances.
- Debt financing will be considered in conjunction with the approval by the Board of the County's CIP.

Capital projects financed through the issuance of bonds, installment financings or lease financings will be financed for a period not to exceed the expected useful life of the project.

- Non-Utility debt will normally have a term of 20 years or less. In no instance will the term of non-Utility debt exceed 25 years.
- Utility (Water) debt will normally have a term of 20 years or less. In no instance will the term of Utility debt exceed 30 years.
- The County will strive to maintain a high level of pay-as-you-go financing for its capital improvements.

***The County will establish thresholds for the maximum amount of debt and debt service that should be outstanding at any one time.***

The County shall develop and implement an ongoing fiscal management program to ensure that the County is in a fiscal position that allows the effective repayment of all existing County debt without adversely affecting the County's ability to provide operating services to the municipality. Furthermore, future County debt shall be obtained at the lowest possible interest rate and shall comply with the requirement set forth based upon the type of debt to be incurred.

The net debt of the County, as defined in G.S. 159-55, is statutorily limited to 8% of the assessed valuation of the taxable property within the County. The County will utilize a self-imposed ceiling of 5%.

Total General Fund debt service will not exceed any limits imposed by the LGC. As a guide, formulas established by the LGC and rating agencies will be monitored and appropriately applied by the County. Debt service as a percentage of the operating budget will be targeted at 14% to 16%.

The County will strive to achieve amortization of 60% or more of its non-Utility debt principal within ten years.

The County will seek to structure debt in the best and most appropriate manner to be consistent with the Asset – Liability Management section of this policy, FP 16.

Whereas the minimum coverage ratio for County's outstanding revenue bonds is 1.20 times, upon the calculation of a coverage ratio for any Utilities System Revenue Bonds which is below 1.5 times (Net Revenues as defined by the General Indenture, but excluding cash receipts from special assessments, over Debt Service as defined by the General Indenture), the Finance Director will notify the Board of such. Within three months of such notification, the Finance Director will again report to the Board and will have performed the necessary internal study to

advise the Board on the actions necessary to restore the coverage ratio to above 1.5 times. This policy is intended to ensure that all reasonable steps necessary are taken to begin the process of reviewing water revenues and rates well before the coverage ratio for outstanding revenue bonds could reach the minimum level of 1.20 times.

The County will seek to employ the best and most appropriate strategy to respond to a declining interest rate environment. That strategy may include, but does not have to be limited to, delaying the planned issuance of fixed rate debt, examining the potential for refunding of outstanding fixed rate debt, and the issuance of variable rate debt. The County will seek to employ the best and most appropriate strategy to respond to an increasing interest rate environment. That strategy may include, but does not have to be limited to, the issuance of variable rate debt (an historically lower interest cost), the use of a forward starting variable to fixed swap, and the use of forward delivery fixed rate debt.

The County will monitor the municipal bond market for opportunities to obtain interest rate savings by refunding by forward delivery, currently refunding or advance refunding outstanding debt. The estimation of net present value savings for a traditional fixed rate refunding should be, at a minimum, in the range of 2.5% to 3% of the refunded maturities before a refunding process begins. The estimation of net present value savings for a synthetic fixed rate refunding should be, at a minimum, in the range of 5% to 6% of the refunded maturities before a refunding process begins.

The County will strive for the highest possible bond ratings in order to minimize the County's interest costs.

The County will normally obtain three debt ratings (Fitch Ratings, Moody's, Standard & Poor's) for all publicly sold debt issues.

While some form of outstanding debt exists, the County will strive to have a portion of that debt in the form of general obligation debt.

For all years that the County has greater than \$50 million of publicly sold debt outstanding, the County will provide annual information updates to each of the debt rating agencies if desired by those agencies.

The County will use the Comprehensive Annual Financial Report (the "CAFR") as the disclosure document for meeting its obligation under SEC Rule 15c2-12 to provide certain annual financial information to the secondary debt market via various information repositories.

The County shall NOT issue debt to finance operating costs.

### **FP 11: Contingency Planning**

*The County will develop practices to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events.*

When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of a government to take timely action and aids in the overall management of such situations. Policies on contingency planning are used as a general guide when an emergency or unexpected event occurs. A set of actions and strategies are identified for each type of situation. Examples of financial emergencies that require contingency plans are sudden and severe decreases in locally collected revenues or intergovernmental aid, and unexpected major capital maintenance requirements. Development of a contingency plan in advance of such situations may be viewed positively by the rating agencies when evaluating a government's credit quality. This can also help expedite relief efforts when an emergency does occur and allow the government to recover funds more quickly or more effectively in the event of a natural disaster.

The County will establish a plan, including definitions, policies, and procedures to address financial conditions that could result in a net shortfall of resources as compared to requirements. The plan will be divided into the following three components:

**Indicators:** These serve as warnings that potential budgetary impacts are increasing in probability. The County will monitor key revenue sources such as sales tax and building activity, as well as inflation factors and national and state trends. A set of standard indicators will be developed.

**Phases:** These will serve to classify and communicate the severity of the situation, as well as identify the actions to be taken at the given phase.

**Actions:** These are pre-planned steps to be taken in order to prudently address and counteract the anticipated shortfall.

The recession plan and classification of the severity of the economic downturn will be used in conjunction with the County's policy regarding the importance of maintaining reserves to address economic uncertainties. Any recessionary impact reduces the County's reserves, corrective action will increase proportionately. The following is a summary of the phase classifications and the corresponding actions to be taken:

**Alert.** An anticipated net reduction in available reserves from 1% up to 9%. The actions associated with this phase would best be described as delaying expenditures where reasonably possible, while maintaining the "Same Level" of service. Each department will be responsible for monitoring its individual budgets to ensure that only essential expenditures are made.

**Minor.** A reduction in reserves in excess of 9%, but less than 23%. The objective at this level is still to maintain "Same Level" of service where possible. Actions associated with this level would be:

- a. Implementing the previously determined "Same Level" Budget.
- b. Intensifying the review process for large items such as contract services, consulting services, and capital expenditures including capital improvements.

- c. Closely scrutinizing hiring for vacant positions, delaying the recruitment process, and using temporary help to fill in where possible.

**Moderate.** A reduction in reserves in excess of 23%, but less than 50%. Initiating cuts of service levels by:

- a. Requiring greater justification for large expenditures.
- b. Deferring capital expenditures.
- c. Reducing CIP appropriations from the affected fund.
- d. Hiring to fill vacant positions only with special justification and authorization.
- e. Closely monitoring and reducing expenditures for travel, seminars, retreats and bonuses.

**Major.** A reduction in reserves of 50% to 100%. Implementation of major service cuts.

- a. Instituting a hiring freeze.
- b. Reducing the temporary work force.
- c. Deferring merit wage increases.
- d. Further reducing capital expenditures.
- e. Preparing a strategy for reduction in force.

**Crisis.** Reserves have been 100% depleted and potential for having a deficit is present.

- a. Implementing reduction in force or other personnel cost-reduction strategies.
- b. Eliminating programs.
- c. Eliminating capital improvements.

In the event that an economic uncertainty is expected to last for consecutive years, the cumulative effect of the projected reduction in reserves will be used for determining the appropriate phase and corresponding actions.

## **FP 12: Accounting Functions**

***Montgomery County will perform accounting functions that shall conform to the generally accepted accounting principles (GAAP) as applicable to governments.***

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other.

The County will comply with prevailing federal, state, and local statutes and regulations. The County will maintain accounting systems in compliance with the North Carolina Local Government Budget and Fiscal Control Act and enable the preparation of financial statements in conformity with generally accepted accounting principals (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

In general, it will be the policy of the County to:

- Prepare and present regular reports that analyze, evaluate, and forecast the County’s financial performance and economic conditions. This information will be made available to the public for their inspection.
- With available resources, the County will seek out and employ the assistance of qualified financial advisors and consultants in the management and administration of the County’s financial functions.
- An independent audit will be performed annually.
- The County will issue annual financial reports in accordance with generally accepted accounting principles (GAAP) as outlined in the Governmental Accounting, Auditing and Financial Reporting (GAAFR) publication.

The **basis of accounting** refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. As in the basis of budgeting, accounting records for Montgomery County governmental funds are maintained on a **modified accrual basis** with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. In contrast to the basis of budgeting, accounting records for proprietary funds are maintained on the **accrual basis** in which revenues are recognized when earned and expenses are recognized when incurred.

Montgomery County’s accounting system is organized and operated on a "fund" basis. Each accounting entity is accounted for in a separate "fund" which is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with related liabilities and residual equities or balances, and changes therein. Two fund types defined in the “Description of Budgeted Funds are further defined below as well as the addition of Fiduciary Funds.

**Classification Fund Type**

- Governmental Funds
- Special Revenue
- Debt Service
- Capital Projects
- Proprietary Funds
- Fiduciary Funds Agency
- Expendable Trust

**Governmental Funds.** These funds are, in essence, accounting segregations of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between governmental fund assets and liabilities (the fund equity) is referred to as "Fund Balance". The primary measurement focus is “flow of current financial resources.” Increases in spendable resources are reported in the operating statement as revenues or other financing sources, and decreases are reported as expenditures or other financing uses.

**Proprietary Funds/Enterprise Funds.** These funds are sometimes referred to as "income determination," "non expendable," or "commercial type" funds and are used to account for a government's on-going organizations and activities which are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The generally accepted accounting principles here are those applicable to similar businesses in the private sector, and the measurement focus is the economic condition of the fund as a result of the events and transactions of the period. Events and transactions that improve the economic position of a proprietary fund are reported as revenues or gains in the operating statement. Those that diminish the economic position are reported as expenses or losses.

**Fiduciary Funds.** These funds account for assets held by the County in a trustee capacity or as an agent for other governmental units and for other funds. Each trust fund is accounted for as either a governmental or a proprietary fund. Fiduciary funds are not budgeted in the annual budget process.

**Internal Control.** In developing and maintaining the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Financial systems will be maintained to enable the continuous monitoring of revenues and expenditures or expenses with complete sets of monthly reports provided to the Board, the County Manager, the Finance Director and the Assistant Finance Director. Monthly expenditure/expense reports will be provided to each director and department head for their functional area and online, real time, view only, access to the financial system will be made available to department heads and other staff as much as practical and its use encouraged.

The County will place emphasis on maintenance of an accounting system which provides strong internal budgetary and financial controls designed to provide reasonable, but not absolute, assurance regarding both the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and reports, as well as the accountability of assets.

Departments and specifically the Information Technology Department shall consult with and seek input from the Finance Department concerning internal controls, integration, and reporting capabilities prior to the procurement or during the internal development of any system that will process and/or record financial transactions or data.

An annual audit will be performed by an independent certified accounting firm which will issue an opinion on the annual financial statements as required by the Local Government Budget and Fiscal Control Act.

The County will solicit proposals from qualified independent certified public accounting firms for audit services. The principal factor in the audit procurement process will be the auditor's ability to perform a quality audit. The County will enter into a multiyear agreement with the selected firm for a period of three fiscal years. Firms are not barred from consecutive contract awards.

The Finance Department will conduct some form of internal audit procedures at least one time per year, specifically focusing upon cash receipts procedures.

The County will prepare a CAFR. The CAFR will be prepared in compliance with established criteria to obtain the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting and will be submitted to that award program each year.

Full and complete disclosure will be provided in all regulatory reports, financial statements and debt offering statements.

The County will use the CAFR as the disclosure document for meeting its obligation to provide certain annual financial information to the secondary debt market via various information repositories. The annual disclosure is a condition of certain debt covenants and contracts that are required by SEC Rule 15c2-12.

The Finance Department will develop and maintain a Financial Procedures Manual as a central reference point and handbook for all financial, accounting and recording procedures.

The Information Technology Department will establish, document and maintain a Computer Disaster Recovery Plan and will provide for the daily backup of data and the offsite storage of the same.

### **FP 13: Investment Policy**

*The County will have an investment goal to maintain adequate cash to meet current obligations and to invest in those legal securities that maximize earnings and protect principal. Monies that are not required on a short-term basis are to be invested in compliance with the County's investment guideline.*

It is the policy of the County to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the County and conforming to all State statutes governing the investment of idle funds.

## **Scope**

- This investment policy applies to all financial assets of the County except authorized petty cash and debt proceeds, which are accounted for and invested separately from pooled cash. The County pools the cash resources of its various funds and participating component units into a single pool in order to maximize investment opportunities and returns. Each fund's and participating component unit's portion of total cash and investments is tracked by the financial accounting system.

## **Prudence**

- The standard of prudence to be used by authorized staff shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- Authorized staff acting in accordance with procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

## **Authorized Staff**

- G.S. 159-25(a)6 delegates management responsibility for the investment program to the Finance Director. The Finance Director will establish and maintain procedures for the operation of the investment program which are consistent with this policy. Such procedures will include delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director will be responsible for all transactions undertaken and will establish and maintain a system of controls to regulate the activities of subordinates.
- In the absence of the Finance Director and those to which he or she has delegated investment authority, the County Manager or his or her designee is authorized to execute investment activities.

## **Objectives**

- The County's objectives in managing the investment portfolio, in order of priority, are safety, liquidity, and yield.

### Safety

- Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To best mitigate against credit risk (the risk of loss due to the failure of the security issuer) diversification is required. To best mitigate against interest rate risk (the risk that changes in interest rates will adversely affect the market value of a security and that the security will have to be liquidated and the loss realized) the second objective, adequate liquidity, must be met.

### Liquidity

- The investment portfolio shall remain sufficiently liquid to meet all operating and debt service cash requirements that may be reasonably anticipated. The portfolio will be structured so that securities mature concurrent with cash needs (static liquidity), with securities with an active secondary market (dynamic liquidity), and with deposits and investments in highly liquid money market and mutual fund accounts.

### Yield

- The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary, economic and interest rate cycles, taking into account investment risk constraints and liquidity needs.

### **Ethics and Conflicts of Interest**

- Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the County Manager any interests in financial institutions with which they conduct business material to them. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the County.

### **Authorized Financial Dealers and Financial Institutions**

- The Finance Director will maintain a list of financial institutions that are authorized to provide investment services. Authorized financial institutions will be selected by credit worthiness and must maintain an office in the State of North Carolina. These may include “primary” dealers or regional dealers that qualify under SEC Rule 15C3-1 (uniform net capital rule).
- Any financial institutions and broker dealers that desire to become qualified to conduct investment transactions with the County must supply the Finance Director with the following:
  - Audited financial statements;
  - Proof of National Association of Securities Dealers certification;
  - Proof of State registration; and
  - Certification of having read the County’s investment policy.
- Any previously qualified financial institution that fails to comply or is unable to comply with the above items upon request will be removed from the list of qualified financial institutions.
- The Finance Director shall have discretion in determining the number of authorized financial institutions and may limit that number based upon the practicality of efficiently conducting the investment program. The Finance Director shall also have the discretion to add or remove authorized financial institutions based upon potential or past performance.

## **Internal Control**

- The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires the use of estimates and judgments by management.

## **Collateralization**

- Collateralization is required for certificates of deposit. North Carolina General Statutes allow the State Treasurer and the Local Government Commission to prescribe rules to regulate the collateralization of public deposits in North Carolina banks. These rules are codified in the North Carolina Administrative Code – Title 20, Chapter 7 (20 NCAC 7). The Pooling Method of collateralization under 20 NCAC 7 allows depositories to use an escrow account established with the State Treasurer to secure the deposits of all units of local government. This method transfers the responsibility for monitoring each bank’s collateralization and financial condition from the County to the State Treasurer. The County will only maintain deposits with institutions using the Pooling Method of collateralization.

## **Delivery and Custody**

- All investment security transactions entered into by the County shall be conducted on a delivery versus payment basis. Securities will be held by a third party custodian designated by the Finance Director and each transaction will be evidenced by safekeeping receipts and tickets.

## **Authorized Investments**

- The County is empowered by North Carolina G.S. 159-30(c) to invest in certain types of investments. The Board of Commissioners approves the use of the following investment types, the list of which is more restrictive than G.S. 159-30(c):
  - Obligations of the United States or obligations fully guaranteed as to both principal and interest by the United States.
  - Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the United States Postal Service.
  - Obligations of the State of North Carolina.
  - Bonds and notes of any North Carolina local government or public
  - Authority that is rated “AA” or better by at least two of the nationally recognized ratings services or that carries any “AAA insured” rating.
  - Fully collateralized deposits at interest or certificates of deposit with any bank, savings and loan association or trust company that utilizes the Pooling Method of collateralization.
  - Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service, which rates the particular obligation.

- Banker's acceptance of a commercial bank or its holding company provided that the bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.
- Participating shares in a mutual fund for local government investment, provided that the investments of the fund are limited to those qualifying for investment under G.S. 150-30(c) and that said fund is certified by the LGC. (The only such certified fund is the North Carolina Capital Management Trust.)
- Evidences of ownership of, or fractional undivided interest in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capCounty of custodian (STRIPS).
- Guaranteed investment contracts utilizing repurchase agreements but only for the investment of debt proceeds which are to be collateralized at 105% and marked to market on a daily basis.
- Prohibited Forms of Authorized Investments
  - The use of repurchase agreements in the normal investment portfolio (not debt proceeds)
  - The use of collateralized mortgage obligations
  - The use of any type of securities lending practices

### **Diversification**

- Investments will be diversified by security type and by institution.
- With the exception of United States treasury securities and the North Carolina Capital Management Trust, no more than 30% of the County's total investment portfolio will be invested in a single security type or with a single financial institution.
- The total investment in certificates of deposit shall not exceed 25% of the County's total investment portfolio and the investment in certificates of deposit with a single financial institution shall not exceed \$3,000,000.
- The total investment in commercial paper shall not exceed 25% of the County's total investment portfolio and the investment in commercial paper of a single issuer shall not exceed \$3,000,000.
- The total investment in bankers' acceptances shall not exceed 5% of the County's total investment portfolio and the investment in bankers' acceptances of a single issuer shall not exceed \$2,000,000.
- The Finance Director is responsible for monitoring compliance with the above restrictions. If a violation occurs, the Finance Director shall report such to the County Manager and to the Board along with a plan to address the violation.

### **Maximum Maturities**

- To the extent possible, the County will attempt to match its investments with anticipated cash flow requirements. Beyond identified cash flow needs, investments will be purchased so that maturities are staggered.
- The following maturity limits are set for the County's investment portfolio:
  - At least 60% of the investment portfolio will have maturities of no more than 3 years from the date of purchase.
  - At least 80% of the investment portfolio will have maturities of no more than 5 years from the date of purchase.
  - At least 95% of the investment portfolio will have maturities of no more than 10 years from the date of purchase.
  - No investments maturing more than 15 years from the date of purchase may be purchased.
- For purposes of this section, for any variable rate demand obligation, the purchase date is considered to be the last reset and remarketing date and the maturity date is considered to be the next reset and remarketing date.
- If any change is made to the County's policy for unreserved and undesignated fund balance in the General Fund of this policy must be concurrently revised.

### **Selection of Securities**

- The Finance Director or his or her designee will determine which investments shall be purchased and sold and the desired maturity date(s) that are in the best interest of the County. The selection of an investment will involve the evaluation of, but not limited to, the following factors: cash flow projections and requirements; current market conditions; and overall portfolio balance and makeup.

### **Responses to Changes in Short Term Interest Rates**

- The County will seek to employ the best and most appropriate strategy to respond to a declining short term interest rate environment. The strategy may include, but does not have to be limited to, purchases of callable "cushion" bonds, lengthening of maturities in the portfolio, and increases in the percentage of ownership of treasury notes relative to that of treasury bills.
- The County will seek to employ the best and most appropriate strategy to respond to an increasing short term interest rate environment. That strategy may include, but does not have to be limited to, purchases of "step-up" securities, shortening of maturities in the portfolio, the use of floating rate investments, and increases in the percentage of ownership of treasury bills relative to that of treasury notes.

### **Performance Standards**

- The investment portfolio will be managed in accordance with the parameters specified within this policy. The investment portfolio will strive to obtain a market average rate of return within the constraints of the County's investment risk profile and cash flow needs.
- The performance benchmarks for the performance of the portfolio will be rates of return on 90 day commercial paper and on three year treasury notes.

### **Active Trading of Securities**

- It is the County's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal. However, if economic or market conditions change making it in the County's best interest to sell or to trade a security before maturity, that action may be taken.

### **Pooled Cash and Allocation of Interest Income**

- All moneys earned and collected from investments other than bond proceeds will be allocated monthly to the various participating funds and component units based upon the average cash balance of each fund and component unit as a percentage of the total pooled portfolio. Earnings on bond proceeds will be directly credited to the same proceeds.

### **Marking to Market**

- A report of the market value of the portfolio will be generated at least semi-annually by the Finance Director. The Finance Director will use the reports to review the investment portfolio in terms of value and price volatility, as well as for compliance with GASB Statement #31.

### **Software**

- The County recognizes the significance of the size of its investment portfolio and of the requirements contained in this policy. The County will utilize investment software which enables efficient transaction processing and recording, sufficient portfolio monitoring and the ability to maintain reporting compliance with this policy.

### **Reporting**

- The Finance Director will prepare a monthly investment report that will be submitted with the Board's monthly report package.
- The monthly investment report will include a listing of all investments and will show the investment number, the investment description, the purchase, call and maturity dates, the yields to call and to maturity, the weighted average yields to call and to maturity by investment type and in total, the coupon rate, the par value and the ending amortized value. The report will also include earnings information for the last twelve months with that information compared to the established benchmarks.
- The monthly investment report will include reporting on the status of diversification compliance.

### **Policy Considerations**

- A maturity or diversification violation created by fluctuations in the size of the portfolio does not require corrective action. The violation may be cured through an increase in the portfolio size or the maturity of an investment.

### **FP 14: Cash Management Policy**

*The County will manage its cash management functions in a sound and prudent manner, and maintain and further develop programs to ensure its ability to pay for County services to enhance economic opportunities and the quality of life of its residents.*

## **Receipts**

- All aspects of cash receipts shall be subject to proper internal controls with standard controls documented and followed by revenue generating departments.
- The Finance Department shall prescribe internal control procedures for departments which address adequate segregation of duties, physical security, daily processing and reconciliation, use of automated resources, and treatment of overpayments.
- Cash receipts will be collected as expediently as reasonably possible to provide secure handling of incoming cash and to move these moneys into interest bearing accounts and investments.
- All incoming funds will be deposited daily as required by State law.
- The Finance Director is responsible for conducting at least two random or risk based internal audits of cash receipting locations per fiscal year.
- Upon any suspicion of fraud, the department head shall timely notify the Finance Department for further investigation.
- Upon any suspicion of non-compliance with internal control directives, the department head shall timely notify the Finance Department for further investigation. The Finance Director will immediately notify the County Manager.

## **Cash Disbursements**

- The County's objective is to retain monies for investment for the longest appropriate period of time.
- Disbursements will be made timely in advance of or on the agreed-upon contractual date of payment unless earlier payment provides greater economic benefit to the County.
- Inventories and supplies will be maintained at minimally appropriate levels for operations in order to increase cash availability for investments purposes.
- Dual signatures are required for County checks. Electronic signature of checks, drafts and purchase orders is approved.
- Electronic payments shall be utilized to the fullest extent possible where it is determined to be cost effective by the Finance Department. Such payments shall be integrated with financial systems and shall have proper data processing controls.

## **FP 15: Expenditure Policy**

***All expenditures will be properly authorized through the budget ordinance and the County's Department Heads will monitor their budgets monthly to ensure compliance.***

Expenditure budgets shall be monitored throughout the fiscal year by department heads, the Finance Department and the County Manager. Budget compliance is the responsibility of the department head and the Finance Director.

Budgeted funds will only be spent for categorical purposes for which they are intended. The annual operating budget ordinance defines staff authorization for operating budget adjustments. Appropriations of debt proceeds will be made only for the purpose for which such debt instrument was issued or for the payment of debt principal and interest. Donations will be spent only toward the intent for which they were given.

Budgeted expenditures for debt service for any variable rate debt or synthetic variable rate debt will be set to at least the average of the prior five years.

For continuing contracts, funds will be appropriated in the annual budget ordinance to meet current year obligations arising under the contract, in accordance with G.S. 160A-17.

Payroll will be processed in accordance with the requirements of the Fair Labor Standards Act. Overtime and benefit payments will be made in accordance with the County's Personnel Ordinance.

The County will utilize non-capital operating leases for the procurement of copiers, for multifunction copiers/printer type machines and for personal computers.

The County will fund current expenditures with current resources and will strive to avoid balancing budgets utilizing one-time revenues.

The County will employ the use of the carryover method for reappropriation of outstanding purchase orders and contracts as of the end of each fiscal year into the new fiscal year. The process shall be explained in each year's budget ordinance.

#### **FP 16: Asset Liability Management Policy**

*The County will manage its financial assets in a sound and prudent manner, and maintain and further develop programs to ensure its ability to pay for County services to enhance economic opportunities and the quality of life of its residents.*

Montgomery County elected officials and County staffs are representatives of the people of Montgomery County and are expected to manage Montgomery County for the economic and social benefit of everyone. Staff has a fiduciary responsibility for the assets we manage on behalf of the people who are here today and those who come after us.

The County will seek to incorporate coordinated investment and debt structuring decisions with the goal of such coordination being to use each side of the balance sheet to mitigate, or hedge, cash flow risks posed by the other side of the balance sheet.

The County considers short-term investments to be effective hedges to variable rate debt because movements in interest rates should have offsetting impacts upon both.

- Given the prevalent patterns of business, economic and interest rate cycles, the County's policy will be to strive to match temporary increases in interest income to temporary increases in interest expense through the use of variable rate debt or synthetic variable rate debt.
- This policy recognizes that variable rate debt generally offers lower interest costs and that the use of higher interest income to offset higher interest expense is preferable to creating a budget imbalance due to reliance upon temporarily increased interest income.

The Finance Director is designated to monitor and report on financial market conditions and their impact on performance of debt, investments, and any interest rate hedging products implemented or under consideration.

The Finance Director is designated as the individual responsible for negotiating financial products and coordinating investment decisions for debt structure. The Finance Director is designated as the individual responsible for recommending debt structure to the Board.

The County shall incorporate the use of variable rate debt or synthetic variable rate debt, as allowed by the Debt Management Section of the LGC, into its debt structure. Unhedged variable or synthetic variable rate debt shall not exceed 20% of the County's total, non-Utility debt outstanding.

***The County shall maintain an inventory of and assess the condition of all major capital assets. This information will be used to plan for adjustments to the enterprise fund fees and a long-term capital improvement plan.***

As required by GASB 34 for capital assets, the County shall maintain an inventory and assess the condition of its major capital assets. The capital plans for the County shall include this information as part of its planning and implementation process.

#### **FP 17: Capital Improvement Policy**

***The County will develop and manage a five year capital improvements plan (CIP) which projects capital needs and details estimated costs, description, anticipated funding sources for capital projects as well as identifies ongoing operation and maintenance cost associated with the project.***

The annual update of the CIP will be conducted in conjunction with the annual operating budget process.

The first year of the five-year CIP will be the basis of formal fiscal year appropriations during the annual budget process.

The CIP will generally address those capital assets with a value of \$50,000 or more and a useful life of five years or more.

A programming or cost estimation study is eligible for inclusion in the CIP for a project for which a future request is being considered. Such a study is encouraged in order generate reliable cost estimates for the CIP.

The County expects to see new capital items generally first appear in the last year of the CIP.

The County acknowledges pay-as-you-go financing as a significant capital financing source, but will ultimately determine the most appropriate financing structure for each capital project both

on an individual basis after examining all relevant factors of the project and in conjunction with the funding of the entire CIP.

The capitalization threshold for fixed assets shall be \$5,000. The threshold will be applied to individual fixed assets and not to groups of fixed assets. Fixed assets will only be capitalized if they have a useful life of at least two years following the date of acquisition. A physical inventory of capitalized fixed assets will be performed, either simultaneously or on a rotating basis, so that all fixed assets are physically accounted for at least once every four years.

#### **FP 18: Financial Records Management Policy**

*The County will maintain its financial records in accordance with general accepted accounting principles (GAAP) and comply with all laws, regulations, contracts, grants, and other legal requirements.*

Staff will always conduct the County's financial affairs and maintain records in accordance with accounting principles generally accepted in the United States of America as established by the Government Accounting Standards Board. This process should help in maintaining accuracy and public confidence in the County's financial reporting systems. The use of "creative accounting" to paint a more positive picture than what might really exist will not be tolerated.

#### **FP 19: Utility Rate and Fee Management Policy**

*The County will annually review and set its Utility Rates*

Montgomery County is committed to ensuring that the revenues of the utilities are adequate to provide for the proper operation of the related programs, servicing of related debt at prescribed levels, maintenance of the capital plan, and adequate reserves. Montgomery County will utilize the following guidelines in setting the utility rates:

1. The rate structure should encourage consumers to conserve natural resources while providing a stable and predictable revenue bases for the proper management of the utility.
2. The rates shall strive to be equitable among the classes (general types) of rate payers.
3. The revenue target of the utility rates should maintain a minimum of 1.5 times the debt service payments for the utility in each ensuing year.
4. Rates should be set using an assumption of 95% of the average water consumption for the five previous years.
5. A complete rate analysis shall be conducted every year.

#### **FP 20: Grant Policy**

*Montgomery County will adhere to the guidelines for the application, acceptance, administration, and financial reporting of grants including, but not limited to federal, state, local, private, foundation and restricted donations (also considered grants for the purpose of this policy).*

### **Grant Application and Responsibility.**

- Individual departments are encouraged to investigate sources of funding relevant to their respective department activities. Upon finding a grant opportunity, departments are to review the grant with the Finance Director.
- The individual department requesting a grant or receiving a restricted donation shall generally be considered the Program Administrator of the grant. The Finance Department may assist in project development and the financial administration and reporting of the grant but the Department Head or his/her designee is ultimately responsible for managing the project, meeting all terms and conditions of the grant, insuring that only allowable costs are charged to the grant program and adhering to County budgeting and fiscal procedures.
- All grant contracts must go through the County's contracting process. Individual departments and Department Head or his/her designee are not authorized to execute grant contracts. Grant contracts will be reviewed by the County Attorney's office and executed by the County Manager and/or the Board.
- Finance Director will review all application and information before any information is submitted to any granting agency, whether the initial application or the financial reports.
- Individual Departments, prior to seeking grants, will meet with the Finance Director to determine the following:
  - Matching Contributions: Most grants contain a matching component. This must be identified where in the budget it is prior to an application being submitted.
  - Partnership Agreements: Any application that will require partnership will have the partnership agreement completed and in place prior to submitting the application.
  - Purpose of Grant: Grants will be evaluated with all departments that will be involved. After a project has been identified, all grants will be explored. A grant will not be applied for unless a project has been identified and the Board has been notified that application is going to be made. A project can not move forward on until the Board has approved the acceptance of the grant application, as well as, any matching funds have been identified and is in the current budget. Grants have to viable and serve a purpose.
  - Planning of the Application: A meeting of all parties involved will be held prior to the submittal of any grant. This process will discuss the following:
    - Scope of Work/Project Description: Provide a clear, concise and complete statement for each specific objective your project proposes to address. Where appropriate, the objectives should be quantifiable. Describe the activities and/or tasks that will address each of the objectives. The Finance Director can provide and help prepare the narrative reports and can provide technical assistance to the Project Administrator.
    - Project Justification: Provide an explanation of the benefits of the proposed project, supporting local government policies and actions, and

the County's capability to maintain any infrastructure that might be built from the grant. Be able to answer what the fiscal and technical capabilities of the County are to carry out and maintain the ongoing maintenance and operational of the project.

- *Project Implementation Schedule:* Provide an outline of the activities and/or tasks that will address the objectives of the project. Describe interim and final products or milestones for each task.
- *Project Budget:* Provide the total estimated project cost. Provide how the estimated cost was derived. The total estimated cost should be broken down to clearly delineate funds being requested and what the County is committing to.

### **Grant Acceptance & Appropriation by County Commissioners**

- Even though the funding source for any activity may be provided by a grantor/donor, only the Board can appropriate funds for official County activities. Therefore, prior to the acceptance of a grant, the County Manager and the Board shall:
  - Approve the terms and conditions of the proposed grant including the specific obligations that may be created by the grant contract in terms of required County matching expenditures or staff activities, even if the expenditures were previously appropriated through the budget adoption process.
  - Approve budget appropriations for the grant expenditures and County matching expenditures unless previously appropriated through the budget adoption process.
  - Approve and execute the Grant Contract(s).
- Any budget supplements requested by the Department Head or his/her designee or operating department shall be reviewed by the Finance Department and submitted as a staff report to the Board for their review and approval. The Finance Department along with the Department Head or his/her designee shall determine the proper amount of the appropriation request during the current and future fiscal year(s).
- The Finance Director or his/her designee shall have the authority to oversee the day-to-day functions of each grant.

### **Timely Reimbursement**

- The Department Head or his/her designee administering the grant is responsible and should pursue and/or request grant reimbursements or draw-downs on a timely basis. If requested, the Finance Department will assist with grant reimbursements or draw-downs. All draw requests must be reviewed and approved by the Finance Department prior to submittal. All checks shall be made payable to Montgomery County and remitted to the Finance Department.
- Grant checks should be deposited immediately with the County Finance Department along with supporting documentation received by the Department Head or his/her designee administering the grant.
- The Department Head or his/her designee administering the grant will keep the Finance Department apprised of the annual estimated grant revenues and expenditures and a tentative schedule of cash-flows for the grant program.

### **Financial and Grant Reporting**

- Grant reporting requirements vary widely by grant and sometimes include monthly, quarterly, and or annual reporting. Subsequent to the approval of a grant application, and during the project period, any required reports shall be the responsibility of the Department Head or his/her designee administering the grant, or if requested by the Department Head assistance from the Finance Department. Department Head or his/her designee submitting their own reports shall forward a copy of each report to the Finance Department.

### **Grants Containing Direct Federal Assistance of Federal "Pass-Through" Funds**

- Department Head or his/her designee acknowledge that Federal Funds or Federal Funds that "pass-through" state and local programs are required to be reported on the County's Schedule of Federal Financial Assistance and included in the County's annual Single Audit (compliance audit of all Federal Funds). Department Head or his/her designee will identify and keep the Accounting Division apprised of those grant programs that contain direct Federal Funding or Federal pass-through funds identifying the Catalog of Federal Domestic Assistance (CFDA) number when at all possible.

### **Record Keeping & Retention Requirements**

- For the purpose of Grantor inquiries and grant specific compliance audits, Department Head or his/her designee are responsible for maintaining adequate records to evidence that program activities and expenditures met the terms and conditions of the grant and that all grant reporting requirements were met timely. Record retention requirements vary by grant but it is recommended that grant records should be maintained for a minimum of the life-of-the-grant plus three years, unless otherwise specified by the grant contract.

### **Documents to be forwarded to Accounting/Revenue:**

- Information received from a granting or donor agency that is pertinent to the terms, conditions, approval, extension, denial, revocation, and administration of a grant shall be forwarded to the Finance Department including but not limited:
  - Grant Award Notification
  - Expenditure Authorization Date (if applicable)
  - Grant Contracts
  - Grant Extension Letters
  - Grant Termination Letter
  - Program and/or Financial Reports
  - Notices of Questioned Costs or instances of non-compliance
  - Any Document setting or modifying terms and conditions of the

### **FP 21: Pass Through Agency Policy**

*Montgomery County will consider requests that the County serve as a pass through agency for other organizations. All such requests must first be made to the County Manager and must have the support of a Department Head who will assign a staff member to serve as the Project Administrator/Liaison for the project. With County Manager approval, the pass through grant application request will go through the regular internal approval process and be brought to the Board for a final decision on submitting the grant application.*

*The purpose of this Pass Through Policy document is to clarify the responsibilities of the entity that is providing fiscal management, accounting and reporting services on behalf of one or more participating organizations receiving funding under a grant or other award.*

### **Pass Through Agreement**

The use of a **Memorandum of Understanding / Pass Through Agreement** (Pass Through Agreement) is required. This document will clearly identify the responsibilities of both the pass through agent and the individual grant recipients that are referenced as participating organizations. It should identify conditions where the agreement would be terminated and also the administrative fees for the fiscal agent. The **Pass Through Agreement** may also be used to identify additional responsibilities such as program management or budget control.

### **PROJECT ACCOUNTING**

The Pass Through Agent is responsible for recording all grant receipts and disbursements. Where appropriate, the fiscal agent should maintain budgets for total program activity and the individual activity for entities participating in the program. The Pass Through Agent should establish a separate project account for each grant project. All project receipts and disbursements should be recorded in this account.

### **REPORTING**

The Pass Through Agent is responsible for submitting all required reports to the funding organization. The participating organization(s) is responsible for providing the required program and other information to the Pass Through Agent in a timely manner to allow preparation of the required reports. Reporting responsibilities should be detailed in the **Pass Through Agreement**.

### **DISBURSING FUNDS**

Generally, the Pass Through Agent will make all disbursements for the project. All transactions will be recorded in the project account established by the Pass Through Agent. Three levels of maintaining supporting documentation are allowable under this Pass Through agent policy statement. In accordance with the underlying principle of this policy statement, sufficient documentation must be maintained by the Pass Through Agent to allow the Pass Through Agent's external auditor to perform the fiscal and compliance audit of the grant award

### **Level one documentation**

The Pass Through Agent will maintain requisitions, purchase orders, invoices, receiving reports and payment vouchers. Under this most controlled option, the Pass Through Agent is generally making all purchases for the participating organizations.

### **Level two documentation**

The Pass Through Agent will maintain original requisitions, purchase orders, invoices, receiving reports and payment vouchers for direct expenditures made by the Pass Through Agent and will request and maintain from the participating organizations copies of the above expenditure documentation. Under this option the Pass Through Agent is making some purchases on behalf of the participating organization and maintaining **level one** documentation for these purchases. The participating organization is also making purchases and submitting copies of all supporting documentation to the Pass Through Agent.

### **Level three documentation**

The Pass Through Agent will maintain original requisitions, purchase orders, invoices, receiving reports and payment vouchers for direct expenditures made by the Pass Through Agent. The Pass Through Agent will reimburse expenditures made directly by the participating organization(s), only after receipt of a detailed report of expenditures by the participating organization(s). This report must include all detail information on the expenditures, such as purchase order numbers, vendor name, invoice number, payment voucher number, date and etc. In accordance with the underlying principles of this policy, these disbursements must be adequately documented so that the Pass Through Agent's external auditor can audit the grant. In this situation, the external auditor may request the Pass Through Agent to obtain from the participating organization(s) copies of the supporting expenditure documentation needed for their audit testing. The Pass Through Agent may periodically also ask for such documentation to satisfy their responsibility as Pass Through Agents.

### **INVENTORY RECORDS**

The Pass Through Agent is responsible for maintaining fixed asset records for any items exceeding the capitalization level of the Pass Through Agent. In addition, the Pass Through Agent is responsible for maintaining inventory records for any items- as required by the grant agreement. When grant assets are located at a participating organization(s), this location should be identified on the Pass Through Agent's inventory records. Verification of assets according to the Pass Through Agent's periodic inventory procedures should include those assets acquired as Pass Through Agents.

If the Pass Through Agent adopts a higher capitalization ( or fixed asset inventory ) level than they have adopted for their organization, but a level that still complies with the grant requirements, this should be noted in the **Pass Through Agreement**. The entity that has physical custody of the fixed asset has the responsibility for providing insurance coverage if coverage is desired.

The financial reporting of these assets under the Governmental Accounting Standards Board statement number 34 (GASB # 34) or any subsequent accounting principle should be covered in the **Pass Through Agreement**.

## **FP 22: Capital Asset Inventory Records Policy**

*The County will maintain inventory records in accordance with general accepted accounting principles (GAAP) and comply with all laws, regulations, contracts, grants, and other legal requirements.*

### **Which assets need to be inventoried or cataloged?**

The following assets are inventoriable assets and must be carried on the property records of an agency:

- All assets meeting the state's capitalization policy,
- Assets with a unit cost (including sales tax and ancillary costs) less than \$5,000 identified as small and attractive assets,
- Art collections, library reserve collections, and museum and historical collections which are not required to be capitalized, are required to be controlled by means of a perpetual inventory or a recognized cataloging system, and
- Trust lands are to be accounted for by the administering agency.

### **Small and attractive assets**

Each department and agency should perform a risk assessment (both financial and operational) on the departments and agency's assets to identify those assets that are particularly at risk or vulnerable to loss. Assets so identified that fall below the state's capitalization policy are considered small and attractive assets. Each department and agency should develop written internal policies for managing small and attractive assets.

The department and agency should implement specific measures to control small and attractive assets in order to minimize identified risks. Periodically, the department and agency should perform a follow up risk assessment to determine if the additional controls implemented are effective in managing the identified risks.

Departments and agencies must include as small and attractive assets all items in the commodity class code major group 10XX – Weapons, Firearms, Signal Guns, and Accessories. Otherwise, departments and agencies have discretion in setting their definition of small and attractive assets. However, absent a risk assessment and development of written policies for identifying and controlling small and attractive assets, departments and agencies must include, at a minimum, the following assets with unit costs of \$300 or more as small and attractive:

- Communications Equipment, Public Safety: Audio and Video
- Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Rangefinders

- Cameras and Photographic Projection Equipment
- Microcomputer Systems, Laptop and Notebook Computers
- Other IT Accessorial Equipment and Components (Scanners, Data Displays, etc.)
- Office Equipment
- Record Players, Radios, Television Sets, Tape Recorders, VCRs, and Video Cameras, Home Type

### **Inventory records requirements**

Departments and agencies are to maintain a capital asset inventory systems that include records for all inventoriable assets.

Department and agency capital asset inventory systems should contain, at a minimum, the following data elements, except as noted below:

- **Department or agency Name and Code Number** - The agency name and three digit department or agency code number.
- **Account** - For proprietary and trust fund type accounts, this is the account in which the asset is being used. This may or may not be the original purchasing account. For governmental fund type accounts, this is the account that originally purchased the asset. For those assets acquired prior to July 1, 1982, for which an account cannot be identified or is no longer in existence, such assets are to be identified as assets of the General Fund - Basic Account.
- **Acquisition Date** - The date the agency takes title to, or assumes responsibility for, an asset.
- **Commodity Class Code** - The code assigned to a capital asset that correlates to a descriptive title. Schedule A-Capital Asset Commodity Class Code List and Useful Life Schedule.
- **Cost** - The total cost (value) assigned to the asset.
- **Depreciation** - The portion of the cost of a capital asset representing the expiration in the service life of the asset attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and/or obsolescence which is charged systematically over the useful life of the capital asset. This element is not applicable to small and attractive assets.
- **Description** - Name of the asset
- **Disposal Authorization** - When required, either the number assigned by the IT Department (for information technology related equipment and proprietary software) or the Finance Department (for all other capital assets), granting an agency the authority to dispose of an asset or as provided by specific statutory authority.
- **Disposal Date** - With proper authorization, the date that the agency officially relinquishes responsibility for the asset.
- **Inventory Control Number** - The control number inscribed on, or contained on the inventory tag attached or referring to, an asset.
- **Location Code** - The identification code of the county in which the asset is located.

- **Manufacturer** - The name of either the manufacturer or the commonly accepted trade name; if none, then vendor name.
- **Order Number** - The number of the purchasing document used for the acquisition of the asset.
- **Ownership Status** - An indication as to possible claims against the asset by outside parties (e.g., federal government).
- **Parcel Location Identifier (For Land Only)** - The county assessor's parcel number of the land, or other code used by the agency to specifically identify the location of the land. If a county where the state land is located does not use a parcel numbering system for exempt land, use an alternative numbering system. This element not applicable to small and attractive assets.
- **Quantity** - The physical count of the inventoriable items. For equipment, this number is to be expressed as whole units; for buildings, as square feet; for land, in acres to the nearest tenth; and for construction in progress, as number of capital projects under construction.
- **Salvage Value** - The estimated portion of a capital asset's cost that is recovered at the end of its service life less any disposal costs. This element is not applicable to small and attractive assets.
- **Serial Number** - The sequential identification number assigned by the manufacturer. Do not confuse this number with the model number.
- **Useful Life** - The estimated useful life of the capital asset in years. Schedule B – Alphabetical Listing of Suggested Life for Depreciation of Capital Assets. This element is not applicable to small and attractive assets.

### **Adding capital assets to the inventory**

Upon receipt and acceptance of an inventoriable asset, the Department Head is responsible for supervising the addition of the asset to the inventory system. This includes assigning tagging responsibilities to specific individuals as well as developing and implementing procedures to ensure that the necessary information is entered into the departments or agency's capital asset inventory system.

### **Removing capital assets from the inventory**

Departments and agencies are to adopt internal policies and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal requests.

Capital assets are to be removed from active inventory based on the completion of Form A Property Disposition Request (PDR).

Departments and agencies are to maintain records of capital asset dispositions in accordance with approved department or agency records retention schedules.

### **Finance Department requires information about surplus property**

Departments and agencies must report all capital assets classified as surplus to department or agency needs (excluding information technology related equipment and proprietary software) to the Finance Department.

### **Lost or stolen property**

When suspected or known losses of inventoriable assets occur, departments and agencies should conduct a search for the missing property. The search should include transfers to other divisions or agencies, storage, scrapping, conversion to another asset, etc. If the missing property is not found:

- Have the individual deemed to be primarily responsible for the asset, as well as that individual's supervisor, complete and sign a Form A Property Disposition Request. Include on the Request a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property.
- Remove the lost or stolen property from the agency's inventory and accounting records where applicable.
- Maintain records for losses of inventoriable assets in accordance with approved agency records retention schedules.

### **FP 23: Inventory and Control of Fixed Assets**

*The County will maintain inventory and control of fixed assets in accordance with general accepted accounting principles (GAAP) and comply with all laws, regulations, contracts, grants, and other legal requirements.*

#### **DEFINITION**

- A fixed asset is any item with a monetary value of \$1,000.00 or more and a useful life of one year or longer. Weapons will be considered a fixed asset regardless of value. Weapons may include, but are not limited to firearms, tasers, replicas and animal control devices.
- An addition or improvement to an existing fixed asset will be considered as a fixed asset purchase. An addition is a physical addition that did not exist as part of the original fixed asset. An improvement consists of replacing some significant part which results in an increase in the overall original life or value of the original asset.
- The Finance Department will make the final determination as to whether or not an item is a fixed asset.

- All fixed assets must be budgeted and purchased from the Capital Outlay account group.

## VALUATION

Fixed assets will be accounted for at cost, or if the cost cannot be determined, at estimated cost. The cost of a fixed asset includes not only its purchase price or construction cost, but also any charges necessary to place the asset in its intended location and condition for use. These extra charges include such costs as freight, transportation charges, and site preparation expenditures.

Construction cost includes materials as well as labor. Donated fixed assets will be recorded at their estimated fair market value at the time received. When an item is donated, a statement from the donor should accompany the item stating that the item is being donated to the County by the donor and what the donor estimates the value of the item is at the time of donation.

## RESPONSIBILITY

- Department Heads are responsible for inventory and control of all fixed assets in their department. Department Heads are immediately responsible for control and accountability of all fixed assets on their inventory.
- The Finance Department is responsible for maintaining inventory records and for performing an annual audit (inventory) of fixed assets. The Finance Department is responsible for obtaining tags for County vehicles.
- The Finance Director is responsible for disposal of fixed assets.
- The Equipment Maintenance Superintendent determines the disposition of motive equipment, inspects motive equipment upon acquisition, maintains maintenance records, and prepares vehicles for auction.

## ACQUISITION

- Fixed assets may be acquired by outright purchase, construction, lease-purchase agreement, installment purchase contract, or donation. Items purchased outright or donated will be recorded at time of acquisition. Items purchased on a lease-purchase agreement or installment purchase contract will be recorded at the inception of the agreement. Items that are constructed in the division will be placed on inventory at the time of construction.
- Upon receipt of a fixed asset, the following actions will be taken to add the item to the inventory:
  - The appropriate Department Head will submit an inventory control form, Form A Property Disposition Request to the Finance Department. The inventory form must be completely filled out by the Division submitting the form except for the inventory number.
  - Upon receipt of the inventory form, the Finance Department will assign an inventory number, and the item will be added to inventory records.
- The division will receive a computer printout showing the addition of the item and inventory number assigned to the item.
- The Department Head will be responsible for affixing the inventory number on the item.

## **EXCEPTION - MOTIVE EQUIPMENT**

The following procedures apply to acquisition of motor vehicles:

- Prior to award of a contract by the Board of Commissioners, the Finance Department will advise the Department Head to prepare a requisition to encumber funds.
- Following award by the Board of Commissioners, the Finance Department will process the requisition.
- The Finance Department will obtain required signatures and make distribution of the contract. A copy of the P.O. will be attached to the contract which is forwarded to the vendor.
- The Finance Department is responsible for placing the order for motor vehicles. The P.O. and contract sent to the vendor constitutes the order request. A letter order will be attached to the P.O. for all vehicle orders.
- Upon delivery, the Department and the user Department Head will inspect the vehicle to determine whether specifications are met. Signatures of the different division representatives on the invoice constitutes acceptance of the vehicle.
- Upon delivery and acceptance, the division will sign the invoice and forward to the Finance Department so that payment to the vendor can be processed. The Finance Department will assign an inventory number and obtain a vehicle license tag and title. Titles to all County vehicles will be maintained in the Finance Department.
- Upon receipt of a vehicle, the Department Head will make arrangements with Equipment Maintenance to obtain special markings and equipment.

## **TRANSFER OF FIXED ASSETS**

- A fixed asset may be transferred from one division to another within the same department. The Department Director or Department Head is the approving authority for this type of transfer.
- The County Manager must approve interdepartmental transfers of motive equipment (vehicles).
- The losing division is responsible for submitting an inventory control form to Finance to complete the transfer. Both the gaining and losing Department Head must sign/date the form. For interdepartmental transfers, both losing and gaining Department Heads must also sign.
- Form A Property Disposition Request must be completed and returned to Finance. Upon receipt of the form, Finance will enter the changes. Both divisions will receive a computer printout showing the transfer.

## **DISPOSAL OF FIXED ASSETS**

Fixed assets can be removed from the inventory by: auction, sale through sealed bidding, trade-in, scrapping, or administrative action by the County Manager. The losing division must submit to Finance Form A Property Disposition Request Form for any item disposed of under this section.

- Sale by Auction: The County has at least one auction each year to dispose of surplus property. Prior to the auction date divisions will deliver property to the Finance Department. An inventory control form will be forwarded with the property so that it can be removed from the division's inventory records. The losing division will receive a printout reflecting the transaction.
- Sale by Sealed Bids: Department Heads will request sale of surplus property through sealed bids by memorandum to the Finance Department, who will administer the bidding process, and prepare an agenda item for the Board of Commissioners consideration.
- Trade-In: A Department Director and/or Department Head may believe that an item will be of more value to the County if used as a trade-in. If this option is decided upon, the division must identify the item as a trade-in so that it can be included in the bid packet. The Finance Department will list the item on the bid sheet so that vendors can specify trade-in allowance.
- Scrapping: If a Department Director or Department Head determines that an item no longer has value, and would not provide revenue through sale, the item can be scrapped or otherwise destroyed. Form A Property Disposition Request form must be submitted to the Finance Department. The losing division will receive a printout reflecting the transaction.
- Administrative Action: If an item is lost or stolen, the Department Head must fill out Form A Property Disposition Request Form to report of lost/stolen property. A police report must accompany Form A if the item has been stolen. The report is forwarded through the Department Director and Finance Director and the County Manager. Upon approval by the County Manager, the Finance Department will remove the item from the inventory, and so advise the Department Director and Department Head.

**NOTE CONCERNING DISPOSAL OF MOTIVE EQUIPMENT:**

A vehicle to be disposed of will be transferred to Finance for auction by Form A Property Disposition Request. The Finance Office will determine whether it should be retained for salvage or otherwise disposed of. If, upon inspection of the vehicle, the Finance Office determines that the vehicle is in good condition and should be retained in County service a notice will be sent by the Finance Office to all departments/divisions advising that the vehicle is available for transfer. The County Manager must approve interdepartmental transfers. If more than one division requests the vehicle, the County Manager will make the determination as to which division the vehicle will be assigned. If no one wants the vehicle, the Finance Office can either retain it for cannibalization, or hold it for auction.

Prior to disposal of any County vehicles the Building Maintenance Department will remove the Montgomery County decal, State inspection sticker, and license plate, and any other markings. Cost of materials will be charged back to the losing division. Upon removal, the license plate will be retained by the Finance Office for one year.

Vehicle maintenance records will be retained by the Finance Department for three years after removal of the vehicle from the County inventory. A copy of the records will be provided to the buyer upon request.

## ANNUAL INVENTORY

A physical inventory of fixed assets will be performed by each division once a year. Finance will coordinate the date and time of the inventory with the Department Head.

The Department Director will be responsible for conducting an annual inventory of their respective areas. The Finance Department will send an inventory list to the appropriate division with a memo instructing the division to check for possession of items listed. The Department Director will sign and date the completed inventory and return the list to the Finance Department. The Finance Department will be responsible for verifying a sample of the inventory once the division has signed, dated and returned the completed inventory list. Once the Finance Department has completed their audit of the inventory, they will provide the division with an updated inventory list reflecting any changes made as a result of the inventory audit.

If a Division has possession of fixed assets which do not belong to the County, the following special provisions apply:

- A fixed asset that belongs to a county employee and is being used by the employee must be clearly marked to show ownership.
- Any fixed asset that belongs to a non-employee, company, group, institute, etc., must be clearly marked showing ownership and also be listed on separate inventory maintained by the Department Head. This separate inventory list must be kept current and made available at the time of the Division's annual inventory.

All fixed assets that are not marked as belonging to someone else will be included on the Division's inventory list.

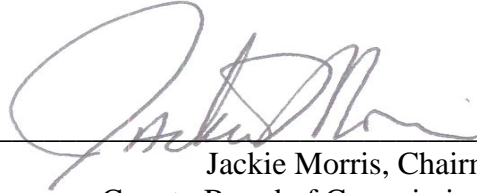
If an inventory item is "on loan" to another division for 6 months or more, the item will become part of the inventory of the receiving division. Transfer forms should be completed to formalize the change.

If, during the inventory or at any other time, an item cannot be located:

- The Department Head will complete a Form A, Property Disposition Request for lost/damaged property and forward through the Department Director, Finance Director, and the County Manager.
- The County Manager will review, and take appropriate action and Finance will delete the item from the inventory.
- The Department Director will receive a printout showing deletion of the item.

The Montgomery County Board of Commissioners hereby adopts and these financial policies.

Adopted this the 15th day of June, 2010.



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Jackie Morris, Chairman  
Montgomery County Board of Commissioners



ATTEST:



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Laura B. Morton  
Clerk to Board of Commissioners