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**DOUGLAS COUNTY ADMINISTRATIVE  
POLICIES AND PROCEDURES**

**NUMBER:** 300.21  
**EFFECTIVE DATE:** 07/01/2019  
**REVISED:**  
**AUTHORITY:** BOCC  
**COUNTY MANAGER:** RC

**PAGE 1 OF 4**

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**SUBJECT: GENERAL FUND BALANCE AND BUDGET POLICY**

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- I. PURPOSE:** The County desires to maintain a prudent level of financial resources to guard its stakeholders against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. In addition, this policy is intended to document the appropriate reserve level to protect the County's credit worthiness. The General Fund Operating Reserves are accumulated and maintained to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

This policy establishes the amounts the County will strive to maintain in its General Fund Reserve (Unassigned Fund Balance), how the reserve will be funded, defines a balanced budget, and the conditions under which the reserve may be used.

**II. POLICY AND PROCEDURES:**

**A. RESERVE LEVELS:**

The County will maintain a minimum level of Unassigned Fund Balance in the General Fund equivalent to two months of regular, on-going operating expenditures (including transfers out). The County will measure its compliance with this policy as of December 31<sup>st</sup> each year, as soon as practical after final year-end account information becomes available. During the course of the year, the Finance Department shall closely monitor the County's revenues and expenditures to ensure Reserves are not used beyond what was planned in the adopted budget. For the purposes of this policy, current year's actual expenditures will exclude significant Non-Recurring items.

If, based on staff's analysis and forecasting, the target level of Reserves is not being met, or are likely to not be met at some point within a five-year time horizon, then during the annual budget process, Fund Balance levels will be provided to the Chairman and Board of County Commissioners. Should the projected year-end Fund Balance be below the minimum Reserve amount established by this policy, a plan to replenish the Reserve would be established based on the requirements outlined in this policy.

**B. FUNDING THE RESERVES:**

Funding of General Fund Reserve targets will generally come from excess revenues over expenditures or one-time revenues. In the event that Reserves are used, resulting in a balance below the two months minimum, a plan will be developed and included in the

formation of the five-year forecast presented during the annual budget process.

**C. BALANCED BUDGET:**

The County will maintain a balanced budget for its General Fund. This means:

- a. Operating revenues must fully cover operating expenditures. Operating expenditures include costs for operations, including debt service and amounts necessary to maintain existing Infrastructure Assets and Facility Assets appropriately.
- b. Ending fund balance must meet the minimum financial policy levels as defined in this policy after consideration of the operating budget and one-time capital investment in new assets.
- c. Budgets must be accompanied by forward-looking longer-term projections as is current practice, that look beyond the current budget year.

**D. USE OF RESERVES**

It is the intent of the County to limit use of General Fund Reserves to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenditures. Reserves may, however, be used to allow time for the County to restructure its operations in a deliberate way (such as during an economic downturn), but such use will only take place in the context of an adopted long-term plan.

In the event Reserves exceed the minimum balance requirements, at the end of each fiscal year, any excess Reserves may be used in the following ways:

- a. Fund accrued liabilities, including but not limited to debt service, pension, and other post-employment benefits as directed and approved within the annual budget resolution.
- b. Appropriated to lower the amount of bonds or contributions needed to fund capital projects in the County's Capital Improvement Plan.
- c. One-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues. Emphasis will be placed on one-time uses that reduce future operating costs, or
- d. Start-up expenditures for new programs, provided that such action is approved by the Board of County Commissioners and is considered in the context of multi-year projections of revenues and expenditures as prepared by the Finance Department.

**III. AUTHORITY:** The Board of County Commissioners are responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies that establish and direct the operations of Douglas County. The County Manager is responsible for carrying out the policy directives of the Board of County Commissioners and managing the day-to-day operations of the executive departments, including the Finance Department. This policy shall be administered on behalf of the County Manager by the Chief Financial Officer.

**IV. RESPONSIBILITY FOR REVIEW:** The Board of County Commissioners shall review this policy annually.

**V. DEFINITIONS AND ACRONYMS:**

- a. **Assigned fund balance:** Fund balance amounts that are constrained by the County's intent to be used for a specific purpose, but are neither restricted nor committed. Such intent should be expressed by the County Commission or appropriately authorized officials. Constraints imposed on the use of assigned fund balances can be removed or changed without formal County Commission action.
- b. **Capital Improvement Plan (CIP):** A plan that describes the capital projects and associated funding sources that the County intends to undertake in the current year, plus four additional future years, including the acquisition or construction of capital facilities and assets, and the maintenance thereof.
- c. **Cash Balance:** The sum of Cash and Cash Equivalents of an accounting fund.
- d. **Cash Equivalent:** In the context of cash flows reporting, short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose, "original maturity" means maturity as of the date the investment is acquired.
- e. **Committed fund balance:** Fund balance that can be used only for specific purposes pursuant to constraints imposed by an ordinance of the County Commission, which is the County's highest level of decision-making authority. These constraints remain binding unless removed or changed in the same manner to create the constraints.
- f. **Fund Balance:** Fund balance is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in a governmental fund.
- g. **General Fund:** One of five governmental fund types. The General Fund typically serves as the chief operating fund of a government. The General Fund is used to account for all financial resources not accounted in some other fund.
- h. **Non-Recurring Item:** an expenditure that has not occurred in the previous two years, and is not expected to occur in the following year.
- i. **Nonspendable Fund Balance:** Fund balances that include items that cannot be spent, such as amounts that are not in a spendable form (i.e. inventories and prepaid items) and amounts that are legally or contractually required to remain intact.
- j. **Pooled Cash:** The sum of unrestricted cash and investments of several accounting funds that are consolidated for cash management and investment purposes. Investment income or expenditure is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
- k. **Reserve:** Reserve refers only to the portion of Fund Balance that is intended to provide stability and respond to unplanned events or opportunities.

- l. **Restricted fund balance:** Fund balances that have constraints placed upon the use of the resources either by external parties (such as creditors, grantors, or other governments) or imposed by law through a constitutional provision or enabling legislation.
- m. **Unassigned fund balance:** Residual fund balance amounts that are not included in nonspendable, restricted, committed or assigned fund balances.