



DOUGLAS COUNTY
ADMINISTRATIVE POLICIES AND PROCEDURES

TITLE Commitment of Fund Balance	Approval Date 07/11/06
POLICY CUSTODIAN Finance	Revision Date 4/18/23

PURPOSE: To formalize the County's practice of maintaining adequate fund balance levels for mitigating current and future risks of revenue shortfalls or unanticipated expenditures and to protect the County's creditworthiness and financial position from unforeseen emergencies.

DEPARTMENT
RESPONSIBLE: Finance

DEPARTMENT(S)
AFFECTED: All

POLICY:

It shall be county policy to maintain appropriate levels of non-spendable, restricted, committed, assigned, and unassigned fund balances to conform with legal requirements and to ensure a continued strong financial position.

The Annual Financial Report shall show all fund balance classifications as required by Generally Accepted Accounting Principles (GAAP).

Non-spendable, restricted, committed, assigned, and unassigned fund balance levels shall be considered when developing and amending the County budget.

Scope:

This policy will apply to all funds approved by the Board of County Commissioners, including new funds when established.

Governmental Fund Balance Classifications:

Fund balance is the excess of assets/deferred outflows over liabilities/deferred inflows in a governmental fund. Fund balance is accumulated when revenues exceed expenditures and decreased when revenues are less than expenditures. The appropriate fund balance classifications shall be included in each governmental fund as necessary or required by GAAP. Policy cannot consider every situation that could occur; therefore, the County Manager shall have discretion to deviate should circumstances warrant. However, the following provides a guideline of what would be appropriate in each fund balance classification.

Non-spendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in a spendable form or is legally or contractually required to be maintained intact.

- Accounts Receivable – Long-term receivables for intergovernmental loans.
- Inventory – The value of inventories that are not expected to be converted into cash.
- Prepaid Items – The value of the prepaid assets held as non-cash assets.

Restricted Fund Balance – The portion of fund balance constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation. Effectively, restrictions on fund balance may only be changed or lifted with the consent of resource providers.

- TABOR Reserves – Amendment One to the state constitution (Article X, Section 20), passed by voters in 1992, requires that reserves equal to 3% of the fiscal year spending be established for declared emergencies.
- Grant Funding – Unspent grant funding received that must be used for specific programs as stipulated by the Grantor.
- Debt Service Reserves – Any amounts required to be held according to creditor requirements.
- Sales and Use Taxes – Unspent sales and use tax revenue in sales and use tax funds.

Committed Fund Balance – The portion of fund balance that can only be used for specific purposes determined through a formal action taken by the Board of County Commissioners prior to the end of the current fiscal year. Commitments may be removed or changed only by referring to the formal action that imposed the constraint originally.

- Contractual Obligations – Resources specifically committed for use in satisfying contractual requirements approved by the Board of County Commissioners. Could include amounts encumbered on outstanding purchase orders.

Assigned Fund Balance – The portion of fund balance set aside for planned or intended actions. The intended use may be expressed by the Board of County Commissioners or other individuals authorized to assign funds to be used for a specific purpose. In governmental funds other than the general fund, assigned fund balance represents the amount that is not non-spendable, restricted, or committed. This indicates that resources in these funds are, at a minimum, intended to be used for the purpose of that fund.

- Risk Reserves – The County uses an analytical model based upon probability management to determine the amount of risk reserves required to provide for an emergency. These emergency risk reserves are calculated for, and identified in; the General, Road and Bridge and Law Enforcement Authority funds.
- Subsequent Year Expenditures – Appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget.
- Designated Projects – The estimated cost of planned or desired, but not required, specific projects as requested by the Board of County Commissioners or other authorized individuals.
- Residual Fund Balance – In governmental funds, other than the General Fund, assigned fund balance will include any amount that is not non-spendable, restricted, or committed. This indicates that these resources are, at a minimum, intended to be used for the purpose of that fund. Sales and use tax funds must maintain a minimum residual fund balance of \$100,000. Funds that are primarily funded with property tax revenue must maintain a minimum residual fund balance of \$200,000 with the exclusion of the Developmental Disabilities fund which has no minimum residual fund balance requirements.

Unassigned Fund Balance – This is the residual portion of fund balance that does not meet any of the above criteria.

- Residual Fund Balance – This is the residual fund balance classification for the General Fund and will contain any fund balance not already classified and must never fall below \$200,000, unless due to an accounting convention, such as mark to market, that causes a book loss or unrealized loss beyond our control. If any other governmental fund reports a negative residual fund balance at the end of a fiscal year that negative balance would also be classified as unassigned.

Internal Service Net Position Requirements:

Net position is the difference between assets/deferred outflows and liabilities/deferred inflows in an internal service fund. Net position of the County's internal service funds ensure that the funds can continue to provide service without interruption or the need for additional support from the County's General Fund. The County maintains 3 internal service funds to provide self-insurance activities for worker's compensation/unemployment; property/liability; and medical, dental, vision benefits for current employees. Minimum reserves of \$250K have been set for the worker's compensation/unemployment fund and the property/liability fund. Minimum reserves in the medical, dental, vision fund must be equal to 5% of the previous year's claims less amounts held as actuarial claims.