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Policy 500**

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## **GENERAL FINANCIAL POLICY**

### **.1 PURPOSE AND BACKGROUND**

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of Clallam County. Therefore, the establishment and maintenance of wise financial policies enables County officials to protect public interests and ensure trust.

This document incorporates past financial practices in defining the current policies to be used by the County to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general financial guidelines and are intended to provide sound direction in the management of the County's financial affairs.

### **.2 GENERAL FINANCIAL PHILOSOPHY**

The financial policy of Clallam County is to provide a sufficient financial base and the resources necessary to sustain a high level of municipal services to ensure public safety, to maintain the physical infrastructure and surroundings of the County, and to promote the social well-being of the citizens of Clallam County.

It shall be the goal of the County to achieve a strong financial condition with the ability to:

- a. Withstand local and regional economic impacts
- b. Adjust efficiently to the community's changing service requirements
- c. Effectively maintain and improve the County's infrastructure
- d. Prudently plan, coordinate, review, and implement responsible community development and growth
- e. Provide an acceptable level of law enforcement and other protective services to assure public health and safety

### **.4 SERVICES AND FUND STRUCTURE**

#### **4.1 Mandated and Optional Government Services**

Clallam County provides a broad range of mandated and optional government services. The general government operations of the County are accounted for in the General Fund. The General Fund (also called the Current Expense Fund) is used to account for revenues and expenditures unless another specified fund has been created to account for a specific item, activity, or program. Within the General Fund, or funded primarily by the General Fund, there are four broad categories of services and programs:

Administration, Community Service, Health and Human Services, and Law and Justice. The General Fund is financed primarily by property taxes and local sales and use taxes.

#### 4.2 Other Funds

In addition to the General Fund, the County maintains a number of special revenue, enterprise, internal service, capital project, and debt service funds to account for those activities not provided by the General Fund.

- a. The County operates enterprise funds to account for utilities.
- b. Internal service funds are used to account for such things as Equipment Rental, Risk Management, Workers' Compensation, and other internal service expenditures.
- c. Clallam County will establish and maintain Special Revenue Funds, which will be used to account for proceeds and expenditures from specific revenue sources to finance designated activities, which are required by statute, ordinance, resolution or executive order.

#### 4.3 Major Funds

All major funds of the County are to be kept in a positive cash balance position.

#### 4.4 Minimum Number of Funds

The County will maintain the minimum number of funds necessary to satisfy statutory, regulatory, and accounting requirements. Funds are created or abolished by resolution of the Board of Commissioners upon the recommendation of the County Administrator, Auditor, or Treasurer.

#### 4.5 Creation and Closing of Funds and Budgets to be Documented

The creation and/or closure of all funds and/or budgets shall be documented by resolution of the Board of Commissioners.

### .5 OPERATING BUDGET POLICY

#### 5.1 County Budget

The County Budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated municipal revenues.

## 5.2 Balanced Budget

The County will maintain a balanced budget. Spending in any financial period must not exceed the total of current revenues plus any carryover from prior years. Use of reserve funds will be shown in the final budget as a reduction of the ending fund balance and will be noted in the resolution adopting the final budget.

## 5.3 On-going Maintenance and Operations Needs

Neither short nor long-term borrowing will be used to finance on-going maintenance and operational needs without full financial analysis and prior approval of the Board of Commissioners.

## 5.4 Adequate Maintenance of Capital Facilities

The Budget provides for adequate maintenance of capital facilities and equipment and for their orderly replacement.

## 5.5 Retirement Systems

The Budget will provide adequate funding for all retirement systems.

## 5.6 Public Hearings

To address unanticipated expenses, the County must hold public hearings. The County will change the budget only in the case of emergencies or if the County is to receive unanticipated state or federal funds. All additions to appropriations require public process.

## 5.7 Responsibility for Budget Management and Budgetary Control System

The County will maintain a budgetary control system to help it adhere to the budget. County Officers have primary responsibility for management of the budgets within their departments. The responsibility to manage budgets includes providing accurate and timely annual budget estimates, monitoring revenues to ensure they are being received as anticipated, ensuring that expenditures are in compliance with the law and adopted resolutions and policies and are within appropriations, prompt notification of the chief accountant and county administrator when either revenues or expenditures are not as anticipated, and preparation and justification of budget revisions, supplements, and emergencies as necessary.

## 5.8 Preparation of Reports

The Auditor and Treasurer's offices will prepare regular reports comparing actual revenues and expenditures to budgeted amounts.

## 5.9 Publication of Budget

The County Administrator will publish annually a budget document that provides information about the budget to all interested parties.

## 5.10 Establish Service Levels

The Board of Commissioners will establish service levels and priorities for the ensuing year prior to and during the development of the budget.

## 5.11 Board's Priorities

The County Administrator will incorporate the Board's priorities in the formulation of the preliminary and final budget proposals.

## 5.12 County's Budget Procedures

The County's budget procedures shall comply with RCW Chapter 36.40. Procedures outlined in County Commissioner resolutions are followed in establishing the budgetary data reflected in the financial statements. Specifics of the County's budget procedures are listed below:

- a. In July, the Finance Committee meets and reviews revenues for the first half of the year, trends, and preliminary estimates for the coming budget year. The Board of Commissioners may, by resolution, approve budget principles that modify these financial policies for the coming year only.
- b. The Budget Director or Administrator issues a call for budgets to each department and fund manager no later than the second Monday in July. The call for budgets contains instructions, restrictions, and forms necessary for budget preparation by County officers. The call for budget requires submission of estimated revenues and all requested expenditures no later than the second Monday in August.
- c. On, or before, the second Tuesday in September, the County Administrator submits the preliminary requested budget for all funds to the Board for the following financial year. This budget includes proposed expenditures and the means of financing them.
- d. The County Administrator meets with each elected official, department head, and fund manager during September and October to discuss their budget requests and revenue estimates. Based upon current year budget review, departmental

- meetings, and goals and objectives, the County Administrator balances the budget in October and November.
- e. During October and November, the Board of Commissioners meets with each department to discuss their department budget requests and revenue estimates.
  - f. On or before November 20, the County Administrator presents a balanced recommended final budget to the Board, outlining new programs, new or deleted positions, areas of increases and decreases, etc.
  - g. On or before the first Tuesday in December, the Board holds a public hearing, which may be continued from day to day until concluded, but for not more than five days, in order to receive public input.
  - h. On or before December 31, the Board adopts the final budget by resolution.

### 5.13 Budget Adoption Level

The Clallam County budget is adopted at the Department level per the current Washington State BARS Manual at the budget level. Each budget program (identified by its unique eight-digit number) is separate for budget purposes. County Officials must treat each budget independently and may not combine totals. Other restrictions on expenditures and/or revenues may be made by either policy, resolution, or by directive of the Administrator.

### 5.14 Expenditure Restrictions

Unless otherwise modified by the Board or Administrator, the following additional restrictions apply to expenditures:

- a. Salaries and Benefits: Creation or deletion of positions is approved specifically under the authority of, and as delegated by, the Board. Modification of total appropriated funds in the personnel and benefits portion of the budget requires approval by the County Official and the Budget Director up to \$10,000. Modifications in excess of \$10,000 up to \$50,000 require additional approval from the County Administrator and for those in excess of \$50,000 approval is also required from the BOCC. Expenditures may not exceed appropriations in the personnel and benefits categories and under expended allocations may not be used to make up over expenditures in other portions of the budget.
- b. Maintenance and Operations (supplies, contracted services, travel, intergovernmental services, interfund services): Modification of total appropriated funds in the maintenance and operations portion of the budget requires approval by the County Official and the Budget Director up to \$10,000. Budget modifications in excess of \$10,000 up to \$50,000 require additional approval from the County Administrator and for those in excess of \$50,000 approval is also required from the BOCC. Expenditures may not exceed appropriations.

- c. Technology Expenditures: Budget lines intended for expenditures related to information technology may only be used for that purpose and only as authorized by the Director of Information Technology (IT). Departments are not authorized to make purchases of computer equipment, software, or related items from either IT or other lines without approval of the IT Director.
- The IT Director may authorize purchase of minor equipment items related to IT (i.e. local printers, digital cameras, scanners, etc.) from non-IT small equipment budget lines.
  - Computer supply items may be purchased by departments from regular supply budget lines without IT approval.
- d. Capital Expenditures: Creation, modification, or deletion of individually approved capital expenditures requires approval. Approved funds may only be expended on the items or projects approved during budget adoption.
- e. Vacant Positions: Filling of vacant positions will occur only with the approval of the Administrator on a completed personnel requisition.

#### 5.15 Capital Item Definitions and Thresholds

Capital outlays are defined as expenditures for land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have an initial useful life extending beyond one year. Calculation of capital cost includes the cost of purchase, appraisal, legal, land preparation, construction, demolishing, fixtures, shipping, and delivery. Sales tax and other taxes are excluded from the calculation of capitalization threshold but shall be paid from the capital expenditure budget line.

Expenditures that qualify as capital are defined as:

- a. Purchase, construction, and/or installation of items such as machinery, equipment, buildings, improvements, land, easements, or infrastructure having a useful life of more than one year. Capitalization threshold is that amount used by Washington State Government.
- b. Purchase and installation of computer software. Capitalization threshold is \$100,000.
- c. Road construction which increases the value of the road, as opposed to maintenance to maintain its value. Capitalization threshold is \$250,000.

#### 5.16 Changes to Adopted Budget

Changes to the adopted budget will be made in compliance with Clallam County Policy 505, Budget Changes.

#### 5.17 Budgetary Basis

The budgetary basis is substantially the same as the basis of accounting in all governmental fund types. Budgeted amounts are as originally adopted or as amended by the Board.

### .6 REVENUE AND EXPENDITURE POLICY

#### 6.1 Annual Revenues

Annual revenues are conservatively estimated as a basis for preparation of the annual budget and County service programs. Major revenues will be estimated by the County Treasurer and reviewed by the County's Finance Committee prior to adoption of the annual budget. All revenue forecasts will be performed utilizing accepted analytical techniques.

#### 6.2 Expenditures

Expenditures approved by the Board of Commissioners in the annual budget define the County's spending limits for the upcoming financial year. Beyond the requirements of law, the County will maintain an operating philosophy of cost control and responsible financial management.

#### 6.3 Maintaining Revenue and Expenditure Categories

The County will maintain revenue and expenditure categories according to state statute and administrative regulation.

#### 6.4 Current Revenues

Current revenues will be sufficient to support current expenditures.

#### 6.5 Collecting Property Tax Revenues

The County will follow an aggressive policy of collecting property tax revenues.

## 6.6 User Fees

The County will charge user fees for various services when it is appropriate and permitted by law. Unless set by RCW, user fees and charges will be established and maintained at the discretion of the Board of Commissioners. It is the policy of the Board of Commissioners that fees will generally be set at a level related to the cost of providing the services. All fees for services will be reviewed and adjusted (where necessary) at least every three years.

## 6.7 Revenues of a Limited or Indefinite Term

Revenues of a limited or indefinite term will generally be used for capital projects or one-time operating expenditures to ensure that no on-going service programs are lost when such revenues are reduced or discontinued.

## 6.8 Authorized Positions

All authorized positions will be budgeted for a full year with the maximum allowable benefit rate unless specifically designated by the Board of Commissioners as a partial-year position.

## 6.9 Payment for Goods from Prior Year

Payment for goods and services from the prior year, made after the budget closing date set by the Auditor, will be paid from the current year budgeted funds. It is the responsibility of the county official to insure that vendors submit timely invoices. Payments for goods and services which are to be received or used in the next year are not authorized for payment from current year funds, unless such payments are for items such as dues and maintenance agreements where recurring invoices for the next year are normally due prior to year-end.

## .7 ENTERPRISE FUNDS

### 7.1 Enterprise Funds

The County will establish enterprise funds for County services when:

- a. The intent of the County is that all costs of providing the service should be financed primarily through user charges and/or
- b. The Board of Commissioners determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

## 7.2 Expenditures

Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.

## 7.3 Rate Structure

Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, capital and debt service requirements, reserves (as established by financial policy or bond covenant) and any other cost deemed necessary, which may include depreciation.

## 7.4 Rates/Offset

Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.

## 7.5 Services

Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.

## 7.6 Revenue Bonds

Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.

## 7.7 Net Operating Revenues

The County will ensure that net operating revenues of the enterprise are sufficient to pay operating expenses and any debt service requirements, in compliance with the County's debt policy.

# .8 CASH MANAGEMENT AND INVESTMENT PRACTICE

## 8.1 County Treasurer

Careful financial control of the County's daily operations is an important part of the County's overall financial management program.

The County Treasurer, an elected official, is primarily responsible for the daily operations of cash management and investment. The Treasurer is accountable for the management of all funds and for the proper receipting, numbering, and deposit of revenue for other local governmental units and taxing districts.

Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once steps are taken to ensure that the County maintains a protected cash position in its daily operations, the Treasurer invests all other funds until such time as they are required to make expenditures.

## 8.2 Finance Committee

The County will maintain a Finance Committee whose membership includes, at a minimum: the Chair of the Board of Commissioners, the County Auditor, and the County Treasurer, who shall act as chair. The Finance Committee will meet at least quarterly and will discuss investments, anticipated and actual revenues, financial trends, and the state of the various County funds. The Finance Committee shall adopt and maintain a sound investment policy as required by RCW. The Finance Committee shall formulate plans to address revenue shortfalls, both short and long term. The Finance Committee will review the County's financial policies at least bi-annually and make recommendations for changes to the Board of Commissioners. The Committee may, at its discretion, discuss other issues related to financial matters, increase its membership, and formulate financial policies for recommendation to the Board of Commissioners.

## 8.3 Cash on Hand

The County's cash on hand will be invested on a continuous basis in accordance with the County's adopted investment policies.

## 8.4 Formal Investment Policy

The County Treasurer will adhere to the formal investment policy as adopted by the Finance Committee pursuant to RCW. The policy will be reviewed and/or endorsed by state and national professional organizations.

## 8.5 Cash Position

The Treasurer will prepare an analysis of the County's cash position at regular intervals throughout the financial year.

## 8.6 Reports

The Treasurer will provide the Board of Commissioners with regular reports on the County's investment strategy and performance.

### 8.7 Maintenance of Cash

Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.

### 8.8 Interest from Funds

Unless otherwise directed by statute, regulation, or resolution, interest from all funds will be allocated to the General Fund.

### 8.9 Official Banking Institution

In the event the Treasurer determines it is in the best interest of the County to change banking services, Clallam County will select its official banking institution through a formal bidding process in order to provide the County with the most comprehensive, flexible, and cost-effective banking services available.

### 8.10 Warrants

The County will issue warrants for all budgetary expenditures except interfund transfers in order to provide greater financial control and investment flexibility.

## .9 ACCOUNTING, FINANCIAL REPORTING, AND AUDITING PRACTICE

### 9.1 County Auditor

The County Auditor, an elected official, is primarily responsible for accounting and financial reporting for the County. The Board of Commissioners supports the County Auditor in carrying out his/her statutory duties with respect to accounting and financial reporting.

### 9.2 Accounting Practices

Clallam County will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS) and local regulations.

### 9.3 Comprehensive Accounting System

A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the County. All departments are required to utilize the accounting and financial systems designated by the Administrator. Departments authorized to utilize alternative accounting or financial systems, including

budgetary systems, will maintain detailed records that comply with BARS. Detailed information and/or reports will be made available to the Auditor/Administrator/or public upon request.

#### 9.4 Financial Report Standards

The County will meet the financial reporting standards set by the Governmental Accounting Standards Board and the Government Finance Officers Association.

#### 9.5 Full Disclosure

Full disclosure will be provided in all County financial reports and bond representations.

#### 9.6 Annual Audit

An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

#### 9.7 Treasurer to Hold Certain Financial Documents

The County Treasurer will maintain custody of the original documents such as deeds of trust, promissory notes, and other cases where the County is the beneficiary or trustee and is required to maintain original documents.

### .10 FUND BALANCE AND RESERVE POLICY

#### 10.1 Reserve Levels

Adequate reserve levels are a necessary component of the County's overall financial management strategy and a key factor in external agencies' measurement of the County's financial strength. Adequate reserves provide the County with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the County to deal with unforeseen emergencies or changes in condition.

#### 10.2 Cumulative Reserve Fund

A Cumulative Reserve Fund may be maintained in accordance with RCW 36.33.030 to meet general government expenses, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the annual budget. Annual contributions to a Cumulative Reserve Fund will be budgeted from General Fund resources.

Ending fund balances maintained in County Funds or funds created as reserve funds for specific purposes are not created pursuant to RCW 36.33.030 unless specifically done by resolution. Any fund created as a cumulative reserve fund will be so identified in its title and in the authorizing resolution.

### 10.3 General Operating Reserves

The County will maintain general operating reserves, as ending fund balances, to serve as "rainy day funds," to address temporary revenue shortfalls, to provide sufficient cash flow so that interim borrowing is not necessary, and to cover expenses for unanticipated emergency events and liabilities linked to unemployment/employee separation payments. These reserves will be divided into two categories: Committed Reserves and Unassigned Reserves.

**Committed Reserves:** These reserves are spendable only for specific purposes, determined by formal action of the Board of Clallam County Commissioners (BOCC). Initially, these will include a Reserve for Civil Emergency; a Reserve for Unanticipated Capital Needs; a Reserve for Liquidity/Cash Flow; a Reserve for Unemployment/Employee Separation Payments; and a Reserve for Insurance Deductibles. Each year during the budget process, an evaluation and recommendation shall be made by the County Administrator as to the appropriate size of each of these Committed Reserves and a resolution approved by the BOCC will set the amounts required for the upcoming year.

**Unassigned Reserves:** These reserves are specifically designed to provide an "operating cushion" for the General Fund to cover unanticipated expenditures, i.e. Budget emergencies, new programs or purchases not foreseen at budget time, that are deemed to be beneficial or will provide operational efficiencies if implemented. Unless otherwise specifically approved by the Board of Commissioners, this reserve will be held at a minimum of 5 percent of the General Fund Operating Budget.

### 10.4 Special Revenue Fund Reserves

Special Revenue funds that include payroll are required to maintain 10 percent of their budgeted operating expenditures in reserve.

### 10.5 Good Credit Rating

The County will maintain a good credit rating at all times.

### 10.6 Debt Policy

The County will adopt and adhere to a sound, formal debt policy formulated and recommended by the Finance Committee.

## .11 CAPITAL FACILITIES AND IMPROVEMENT POLICY

### 11.1 Capital Investments

Clallam County's government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the County. Planning and implementing sound capital improvement policies and programs today will help the County avoid emergencies and major costs in the future.

### 11.2 Comprehensive Multi-year Plan

The County will establish and implement a comprehensive multi-year Capital Facilities Plan. The plan will be prepared and updated annually by the Parks, Fair and Facilities Department in cooperation with the Public Works Department.

### 11.3 Ongoing Funding Levels

The Board of Commissioners will designate annual ongoing funding levels for each of the major project categories within the Capital Facilities Plan.

### 11.4 Financial Analysis of Funding Sources

Financial analysis of funding sources will be conducted for all proposed major capital improvement projects. The plan shall be updated and priorities reviewed annually in light of changes in needs, available funding, or available staffing. Any costs of operating and maintaining the projects listed in the plan should be identified separately, to ensure that adequate funds will be available for ongoing costs relating to the projects. When considering the priority and funding of each capital project, the County shall consider the operating impacts (i.e., increased staff, facilities maintenance, and outside rentals) of the project.

### 11.5 Annual Capital Improvement Budget

An annual Capital Improvement Budget will be developed and adopted by the Board of Commissioners as part of the annual budget.

### 11.6 Capital Improvement Program

The Capital Improvement Program will be consistent with the Capital Facilities element of the Comprehensive Plan.

## .12 GRANT MANAGEMENT

### 12.1 Funding

The County recognizes that grant funding provides significant resources to enhance the County's ability to provide services and activities not otherwise available. The County will seek grant funding for activities that are determined to further core County functions or that provide for activities, which are in the best interests of our citizens. The County will examine the benefits of grant funding prior to application and decline funding determined not to meet the above criteria.

### 12.2 New Service Programs

Grant applications to fund new service programs with state or federal funds will be reviewed by the County Administrator or Board of Commissioners prior to application. Among other issues, consideration will be given to whether grant activities further the County's mission, whether they are part of the core functions of the department, and whether locally generated revenues will be required to support grant activities when grant funding is no longer available. Departments will provide written documentation regarding these issues with requests to apply.

## .13 INDIRECT COST ALLOCATION PLAN

### 13.1 Indirect Costs

The County employs a plan to allocate indirect costs to other funds that benefit from the services being provided. In particular, administrative costs paid for from the General Fund are allocated on a fair and equitable basis to other funds that benefit from these administrative functions. The advantages of an indirect cost allocation plan are basically twofold:

- a. The indirect cost allocation plan ensures that programs properly reflect all costs incurred in carrying out the program, not just direct costs.
- b. In cases where specific grants allow, the indirect cost allocation plan increases grant funding by including these indirect costs in the cost of the grant-funded program.

### 13.2 Cost Allocation Plan

The County's cost allocation plan shall be maintained in accordance with generally accepted accounting principles for governmental organizations.

### 13.3 Basis for Allocation of Indirect Costs

The County will allocate indirect costs to all other funds (10101-50301) unless otherwise prohibited by grant or state requirements. The County may adopt additional policies and procedures to ensure consistent collection and allocation of indirect costs.