



**ADMINISTRATIVE POLICIES**

<b>SECTION: Financial Management</b>		<b>POLICY #: 416</b>
<b>TITLE: Modification of Net Working Capital Budget</b>		<b>PROCEDURE #: 416-A</b>
		<b>ORDER #: 14-120</b>
<b>DEPT: Finance</b>		<b>DIVISION:</b>
<b>ADOPTED: 12/17/2014</b>	<b>REVIEWED:</b>	<b>REVISED:</b>

**PURPOSE:** This establishes policy for budgeting actual net working capital to replace estimated net working capital during budget execution to provide better financial information with which to manage budgets.

**AUTHORITY:** The Marion County Board of Commissioners may establish rules and regulations in reference to managing the interest and business of the county under ORS 203.010, 203.035, 203.111, and 203.230.

**APPLICABILITY:** Department heads, elected officials, and other employees who are responsible for budget management.

**GENERAL POLICY:** Departments are required to submit supplemental budget requests to modify adopted budgeted net working capital to actual net working capital after the actual has been calculated and recorded in the financial information management system.

**DEFINITION:** Net working capital is a term used in budget to define the amount of net resources computed at the end of the fiscal year that is available as a resource in the ensuing fiscal year. It is alternatively referred to as beginning balance or beginning fund balance; the balances (e.g., amounts) also represent the ending balance or ending fund balance of the prior fiscal year.

**POLICY GUIDELINES:**

1. Background

2.1 Estimating net working capital for the ensuing year budget is dependent on the accuracy of estimating actual revenue and actual expenditures; revenues and expenditures for the remainder of a budget year may exceed or fall short of expectations at budget submission time for many reasons; e.g., change in plans for purchasing, and the timing of construction.

2.2 An inaccurate net working capital budget may cause budget management problems. If actual net working capital is substantially larger than the budget, the additional funds are not available for expenditure to provide additional services or make up for revenue shortfalls. If actual net working capital is substantially less than the budget, the shortfall in resources may result in a

fund year-end net loss even if expenditures remain within appropriation, or may require a reduction in expenditures for the fiscal year.

2.3 Inaccurate budgets may mislead managers both inside and outside of each department into discerning that the financial status of a budget at any level is better or worse than reality. The way to correct an inaccuracy is to revise the estimated net working capital budget to match actual net working capital.

2. Policy:

3.1 A department is required to request a net working capital budget modification for any fund that has either a 5% or greater or a \$5,000 or greater variance between the current budget and the actual amount, regardless of whether the actual is higher or lower than budget.

3.2 A department may at its option request a net working capital budget modification for any fund that has less than a 5% or \$5,000 variance between the current budget and actual amount, regardless of whether the actual is higher or lower than budget

3. Responsibilities:

All department heads, elected officials and other department managers responsible for budget development and execution of operating and non-operating budgets are responsible for monitoring current fiscal year expenditures and encumbrances compared to budget. They are further responsible for modifying the budget according to supplemental budget rules and instructions issued by the Budget Officer and by administrative policies and procedures. This policy sets forth the conditions under which a department either may or is required to modify net working capital during the course of budget execution.

4. Exceptions:

4.1 If the Budget Officer determines that modification of any fund budget to reflect actual net working capital is unnecessary, the department will be advised that submission of a modification request is not required.

4.2 When modification of net working capital is optional to a department subject to subsection 3.2, the Budget Officer may require a modification. This would occur in a situation when the fund is being closely monitored outside of the managing department and the accuracy of financial information is desirable in order to avoid misunderstandings about availability of funds and expenditure limits.

5. Implementation:

The Budget Officer is authorized to implement the policy and there are no extents or limits of that authority.

6. Periodic Review:

The Budget Officer and the Chief Financial Officer shall jointly review the policy every three years.