

RESERVES AND CONTINGENCIES

PURPOSE OF SECTION

This section is intended to introduce and explain the concepts and applications of the County's reserves and contingencies.

TYPES OF RESERVES & CONTINGENCIES

For every conceived risk or possible event, a reserve or contingency could be established. To help manage *foreseeable* risk, the County has established the following Reserves and Contingencies for the 2009/10 budget:

Set-asides:

- Department Operational
- Activity based personnel
- Contingency (Board of Supervisors)

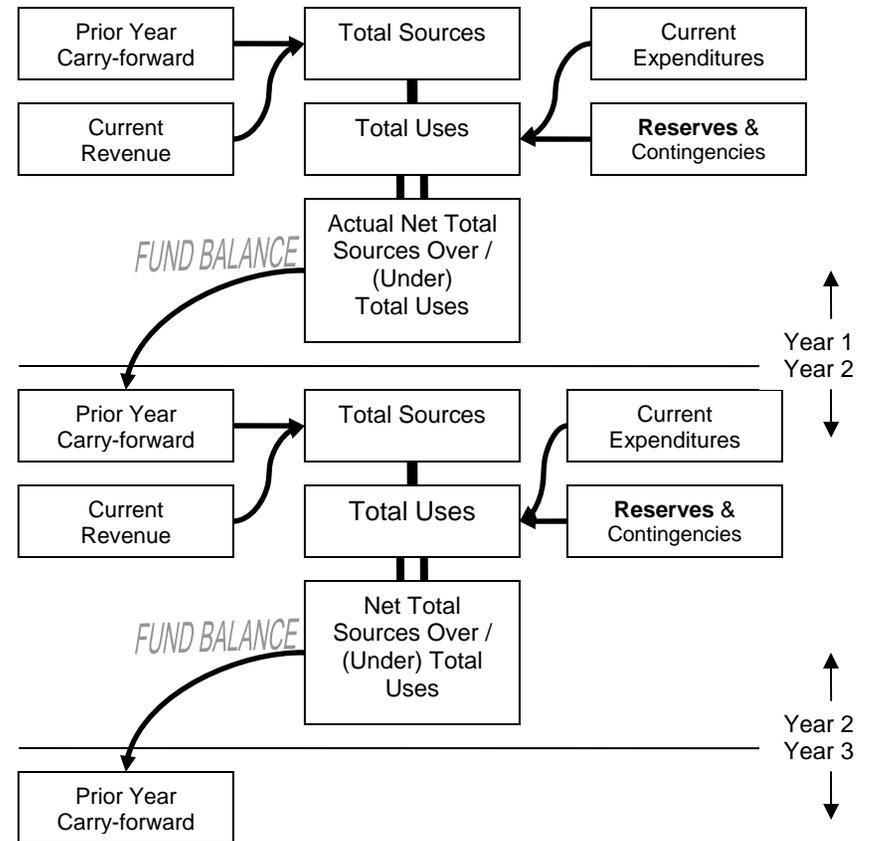
Reserves:

- Cash Flows
- Emergency Reserves (Rainy day fund)
- Anticipated reversions

Only the Board of Supervisors has authority to authorize the use of these accounts. Upon the Board's approval for use of one of these accounts, budget authority is transferred to the appropriate department, function or program.

No expenditures are directly recorded to these accounts.

FLOW OF FUND BALANCE & RESERVES



The above flow charts illustrate how prior year's fund balance flows into the subsequent year. General rule use the prior year's balance to first meet the current year's reserves requirement and then, if used for expenditures, only one-time expenditures by nature.

RESERVES AND CONTINGENCIES



CONTINGENCIES & SET-ASIDES

Department operational: This set-aside is detailed in the Non-Departmental pages in the *Department Budgets* section. These set-asides are for a specific designation of budget authority for a particular purpose that is set-aside and encumbered until such time the anticipated expenditure materializes to the degree that necessitates a budget transfer to harmonize continuity of fluent operations. Any unused portions of this set-aside rolls to fund balance at fiscal year end and is available for appropriation the following fiscal year.

Contingency: This contingency was established using current revenues and may be used for unforeseen purposes (continuing or one-time) that if not doing so would result in detrimental or undesirable outcomes to the organization.

Activity based: This set-aside is established to hold (freeze) certain County positions that's primary duty's workload have decreased to the extent that the position is less critical compared to other County needs. These positions are not abolished since this reduction in workload is anticipated to be a temporary low.

When a position is set-aside it is done so with attached revenue that is estimated to be generated once it's workload (performance and service levels) are back to their appropriate levels.

These positions are held until the primary function experiences the designated workload, as well as the appropriate revenue collection level to support the position's reinstatement to the department.

This concept allows for the reallocation of resources to other County areas where demands are increasing from areas where certain performance and service levels are declining. It also allows for a quicker reaction, during the fiscal year, to increase service levels when demands for these positions increase by having funding for it already budgeted.

The alternative is to abolish positions as appropriate. But then if they are needed to be added mid-year, the General fund contingency budget authority would need to temporarily fund them.

Four positions have been included this year versus three in the prior year. This accounts for the significant increase in the set-aside.

Set-Asides / Contingencies by Category (in Thousands)

Reserve for:	Prior Year	Current year	
		Amount	% Change (reduction)
Department operational	\$ 1,312	711	(46%)
Contingency	396	300	(24%)
Activity based	157	227	45%
Total	\$ 1,865	1,238	(34%)



RESERVES AND CONTINGENCIES

RESERVES

Establishing and maintaining reserves this fiscal year with primarily prior years fund balances will not only build the foundation for fiscal stability, but will also help avoid the use of subsequent year's current revenues to build them back up to necessary levels.

Reserve—For Cash Flow: This reserve represents the minimum cash balance necessary to continue the County's operations without the need to short-term borrow.

Emergency Reserve—Rainy Day Fund: Though it doesn't rain too often or too much in Yuma County, maintaining a rainy day fund is vital to its financial health in future years. It provides for revenue shortfalls to allow for softer landings if the shortfalls do not correct the next fiscal year. The possibility of natural disasters, public safety emergencies, up-front economic opportunities, or slumping economic conditions necessitates the need for adequate reserve funds in the current fiscal year and the ability to carry onto the next fiscal year.

Reserve—For Reversion (Vacancy Factor): The County budgets for all vacant positions at the minimum range with full benefits. The County does not directly reduce a department's budget based on historical vacancy factors. This reserve acknowledges that the County does have a level of vacancies carried during the year that will revert to fund balance at fiscal year end. This amount is calculated for the fund taken as a whole.

Recommended Practice: A strong cash and fund balance can be quantified, but it should also be qualified. Recommended practices set the percentage of an entity's budgets dedicated to reserves as ranging from no less than 5% to 15%. A good cash and fund balance should identify by what requirements will arise in the following fiscal year. Generally applying the 5% to 15% range to the subsequent year's needs rather than only the current year's budget is considered good standing.

Reserves by Category (in Millions)

Reserve for:	Amount	Percentage of Budget:	
		Current Year	Prior Year
Cash Flows	\$ 8.2	11.23%	11.40%
Emergency	3.6	4.97%	5.00%
Reversion (Vacancy factor)	2.1	2.88%	3.10%
Total	\$ 13.9	19.08%	19.50%