

Financial Policies

The City of Huntington Beach was incorporated as a Charter City in 1909. Huntington Beach has a Council/City Manager form of government, wherein seven City Council members are elected to four-year terms, and the Mayor is filled on a rotating basis from the incumbent Council members. The Council sets and approves the City's Financial Policies through the adoption of a resolution. The purpose of these policies is to help frame resource allocation decisions and establish objectives, standards, and internal control for the City's funds. The following policies provide the basic legal requirements and timeliness of policies.

Financial Reporting and Accounting Standards

- The City's accounting system will be maintained in accordance with generally accepted accounting practices and the standards of the Government Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).
- The Annual Comprehensive Financial Report (ACFR) will be prepared within six months of the close of the previous fiscal year. The City will use generally accepted accounting principles in preparing the ACFR and will attempt to qualify for the GFOA's Excellence in Financial Reporting Program.
- The City will strive for an unqualified audit opinion. An unqualified opinion is rendered without reservation by the independent auditor that financial statements are fairly presented.
- The City will contract for an annual audit by a qualified independent certified public accounting firm. The independent audit firm will be selected through a competitive process at least once every four years. The contract period will be for an initial period of three years, with one one-year option to extend.

Budgeting Policies and Standards

- The budget will be prepared consistent with the standards developed by the Government Finance Officers Association and California Society of Municipal Finance Officers (CSMFO).
- The City will maintain a balanced operating budget for all funds with estimated revenues being equal to, or greater than, estimated expenditures, and with periodic City Council reviews and necessary adjustments to maintain balance.
- On-going revenues will support on-going expenditures. Revenues from one-time or limited duration sources will not be used to balance the annual operating budget.
- Support function appropriations will be placed in the department in which they are managed.
- Governmental, agency and expendable trust fund types, and pension trust funds use a modified accrual basis of accounting. These funds recognize revenue when it is subject to accrual. It must be measurable and available to finance current period expenditures. Examples include property taxes, sales tax, governmental grants and subventions, interest and charges for current service. Revenues not susceptible to accrual include certain licenses, permits, fines and forfeitures, and miscellaneous revenue. The City of Huntington Beach recognizes expenditures when it incurs a measurable liability, with the exception of interest on long-term debt, which is recognized when it is due.

- The City accounts for proprietary fund types and pension trust funds on the accrual basis, similar to private businesses, recognizing revenue when earned, regardless of the date of receipt, and recognizing expenses when they are incurred. The City selected under GASB Statement 20 (Governmental Accounting Standards Board), to apply all GASB pronouncements as well as an official statement of opinions of the Financial Accounting Board.
- The budget includes estimates for revenue that, along with the appropriations, comprise the budgetary fund balance. The appropriated budget covers substantially all fund type expenditures. The City Council adopts governmental fund budgets consistent with generally accepted accounting principles as legally required. There are no significant unbudgeted financial activities. Revenues for special revenue funds are budgeted by entitlements, grants, and estimates of future development and growth. Expenditures and transfers are budgeted based upon available financial resources. The City uses an encumbrance system as an aid in controlling expenditures. When the City issues a purchase order for goods or services, it records an encumbrance until the vendor delivers the goods or performs the service. At year-end, the City reports all outstanding encumbrances as reservations of fund balance in governmental fund types. The City then re-appropriates these encumbrances into the new fiscal year.

Fund Balance Definitions and Projections

- The City is reporting estimated changes in fund balances for all funds with adopted budgets for the current fiscal year. The City has chosen to report certain major funds individually and the others combined within the annual audit. Major funds used in the City's ACFR, plus selected other funds are described. Within the budget document, all funds operated by the City are individually presented.
- For governmental funds, the fund balances represent the estimated effort of the adopted budget on the unassigned fund balance that will be reported in the ACFR for the prior fiscal year completed. This amount represents the amount available for appropriation by the City Council. For fiduciary and enterprise funds, the fund balances reported represent the net working capital (current assets minus current liabilities) shown in these funds. This amount closely parallels the unrestricted net assets shown on the ACFR. The estimated capitalized proprietary fund expenditures represent the estimated amount of expenditures that will be used for fixed assets. In enterprise funds, fixed assets are not recorded as expenditure in the year incurred, but are depreciated over their useful lives.

General Fund Balance

The General Fund is the main operating fund that pays for general services provided by the City, such as public safety, parks, and public works. The General Fund accounts for all general revenues of the City and for expenditures related to the rendering of the City's general services. The General Fund is considered to have a high level of risk to operations due to its dependence on revenue streams that are susceptible to economic downturns and revenue reduction impacts from outside agency actions. In addition, the General Fund is the main funding source when responding to unexpected events or emergencies. Consideration of potential risk and other drivers influence the targeted minimum level of total Economic Uncertainties Fund Balance that should be maintained.

The Government Finance Officers Association (GFOA) recommends a minimum of two months of operating expenditures be set aside for unforeseen events. The City desires to maintain a prudent level of reserves based on the revenue impacts described above and the City’s desire to maintain strong bond ratings to minimize borrowing costs.

- There is an established Economic Uncertainties Reserve commitment in the General Fund. The monetary goal of this commitment is equal to the value of two months of the General Fund expenditure adopted budget amount.
- Appropriations from the Economic Uncertainties Reserve commitment can only be made by a 6/7th vote of the City Council. Generally, appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to:
 - An unplanned, major event such as a catastrophic disaster requiring expenditures over 5% of the General Fund adopted budget
 - Budgeted revenue in excess of \$1 million taken by another government entity
 - Drop in projected/actual revenue of more than 5% of the General Fund adopted revenue budget
- The Economic Uncertainties Reserve will not be accessed to fund new programs or personnel.
- Should the Economic Uncertainties Reserve commitment be used and its level falls below the minimum amount of two months of General Fund expenditures adopted budget, the Chief Financial Officer will bring forward a proposed plan to City Council to replenish the fund within three fiscal years as soon as practicable.
- In addition to the Economic Uncertainties Reserve, there are three permanent reserves established generally for the purposes described below. Appropriations from these reserves can only be made by formal City Council action. These permanent reserves are:
 - Equipment Replacement Reserve for the acquisition of rolling stock, other movable assets, pumps, engines, and any equipment needed to sustain City infrastructure. Planned appropriations from this fund are identified during the annual budget process. The replenishment of this Reserve is outlined below.
 - Capital Improvement Reserve for the construction or improvement of City infrastructure. Planned appropriations from this fund are identified during the annual budget process in concert with the Capital Improvement Plan or during the fiscal year as needed. The replenishment of this Reserve is outlined below.
 - Litigation Reserve for unforeseen litigation losses exceeding the amount budgeted in the current year. The monetary goal for this Reserve is generally set at the City’s self-insured limit. This fund will be replenished each year through the annual budget process or during the fiscal year as needed.
- Notwithstanding any prior allocation methodology contained within the City’s Financial Policies, the audited available unassigned fund balance for the fiscal year ended June 30, 2026, shall not be allocated to designated reserve categories. Instead, such amounts shall remain as unassigned fund balance and may be appropriated by the City Council through the annual budget process or other formal action in accordance with the City’s Financial Policies and long-term financial planning objectives.

- In periods of projected structural budget imbalance, available unassigned fund balance may be used on a temporary basis to offset budget shortfalls and support the City’s overall fiscal stability. The use of unassigned fund balance for this purpose shall be evaluated annually as part of the budget development process and shall take into consideration the City’s projected financial condition, reserve levels, infrastructure and capital investment needs, long-term liabilities, economic conditions, and other existing and future financial obligations. Any unassigned revenues received during the fiscal year will be added to the fund balance of the General Fund. The use of unassigned fund balance to address structural budget imbalances is intended to provide short-term budgetary flexibility and shall not be relied upon as a long-term solution to recurring operating deficits. The City shall continue to pursue sustainable revenues, expenditure controls, and other fiscal strategies necessary to maintain long-term structural balance.

Fund Balance Classification

- The City’s fund balance is made up of the following components:
 - Nonspendable fund balance includes amounts that are not in spendable form and typically includes inventories, prepaid items, and other items that, by definition cannot be appropriated.
 - The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
 - The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has authority to establish, modify, or rescind a fund balance commitment by formal action.
 - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Manager or designee has the authority to establish, modify, or rescind a fund balance assignment.
 - Unassigned fund balance is the residual classification for the City’s funds and includes all spendable amounts not contained in the other classifications.
- When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the City’s policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City’s policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

Operation of The Capital Improvement Reserve (CIR) Commitment

- The Capital Improvement Reserve (CIR) will only be used to budget for, and construct, capital improvement projects identified in the City’s five-year Capital Improvement Plan (CIP).
- Savings from completed capital improvement projects will be retained for use on other infrastructure projects.