

Attachment 1
Financial Policies

City of Huntington Beach

Financial Policies

Adopted FY 2006/07

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 and the Government Finance Officers Association.
- . The annual financial report 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 annual financial statements and will attempt to qualify for the Government Finance Officers Association'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 five years. The contract period will be for an initial period of three years, with two one-year options.

BUDGETING

- . The budget will be prepared consistent with the standards developed by the Government Finance Officers Association and California Society of Municipal Finance Officers. In addition, a summary version will be provided to the public in a user-friendly format.
- . 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.

GENERAL FUND BALANCE

- . The General Fund reserve (designation) will be a minimum of seven percent of the General Fund budget. In addition, a second tier reserve will consist of the net accumulation of amounts that were in excess of the seven percent reserve (designation) and remained in the General Fund after application of the financial policy that immediately follows. This second tier reserve will be used to balance budget fluctuations.
- . Allocation of the audited General Fund balance in excess of the above reserves (designations) may be as follows:
 - . 25 percent for capital projects (transferred to the Capital Improvement Reserve)
 - . 25 percent for Infrastructure (transferred to the Infrastructure Fund)
 - . 50 percent to increase the 2nd tier reserve
- . All supplemental appropriations from the General Fund minimum reserve that cannot otherwise be funded during the current fiscal year operating budget must meet one of the three following criteria:
 - . It is an unanticipated emergency.
 - . It is required to implement a Memoranda of Understanding (MOU) or a mandate.
 - . It is a new expense that is offset by related revenues.



**City of Huntington Beach
Financial Policies
Adopted Budget – FY 2009/10**



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 financial report 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 annual financial statements and will attempt to qualify for the Government Finance Officers Association'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 five years. The contract period will be for an initial period of three years, with two one-year options.

BUDGETING

- ❑ The budget will be prepared consistent with the standards developed by the Government Finance Officers Association and California Society of Municipal Finance Officers (CSMFO). In addition, a summary version will be provided to the public in a user-friendly format.
- ❑ 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.

GENERAL FUND BALANCE

- ❑ There will be an established Economic Uncertainties Reserve commitment in the General Fund. The goal is to have an Economic Uncertainties Reserve commitment equal to the value of two months of the General Fund expenditure adopted budget amount.
- ❑ Once established, appropriations from the Economic Uncertainties Reserve commitment can only be made by formal City Council action. 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 taken by another government entity
 - Drop in projected/actual revenue of more than 5% of the General Fund adopted revenue budget
- ❑ 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 goal is to replenish the fund within three fiscal years.



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- Allocation of the audited General Fund unassigned fund balance will be done as follows if, and until, the Economic Uncertainties Reserve commitment is fully funded (i.e., two months of General Fund expenditures):
 - 50% to Economic Uncertainties Reserve commitment
 - 25% for Infrastructure Fund
 - 25% to Capital Improvement Reserve (CIR) commitment
- Once the Economic Uncertainties Reserve commitment attains full funding, unassigned fund balance will be divided as follows:
 - 25% for Infrastructure Fund
 - 25% to Capital Improvement Reserve (CIR) commitment
 - 50% to Equipment Replacement commitment
- Any unanticipated and unrestricted revenues received during the fiscal year will be added to the fund balance of the General Fund.

FUND BALANCE CLASSIFICATION

- The City's fund balance is made up of the following components:
 - Nonspendable fund balance 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.
 - 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 Administrator 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.
- The City considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.
- The City's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

APPROPRIATION AUTHORITY

- The City Council is the appropriation authority for the City Budget. As required by state law, appropriations expire at the end of each fiscal year.