

RESOLUTION NO. R-2011-238

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF HOLLYWOOD, FLORIDA; ESTABLISHING A FUND BALANCE POLICY FOR THE CITY OF HOLLYWOOD CONSISTENT WITH GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54, FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS; PROVIDING FOR SEVERABILITY; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the City desires to establish a Fund Balance Policy consistent with the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; and

WHEREAS, the City seeks to stabilize the long-term financial position of the City; and

WHEREAS, the City is adopting a fund balance policy in order to secure and maintain investment-grade credit ratings, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures and/or revenue shortfalls; and

WHEREAS, a fund balance policy will set standards for use and replenishment of fund balance reserves with a goal of structural balance in the City's budget; and

WHEREAS, the City's goal of a structurally balance budget will require that fund balance generally not be used to pay for recurring expenses; and

WHEREAS, the Government Finance Officers Association recommends an unrestricted fund balance of 17% of general fund operating expenditures;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF HOLLYWOOD, FLORIDA:

Section 1: DEFINITIONS

Fund Balance - As defined by the *Governmental Accounting, Auditing and Financial Reporting* of the Government Finance Officers Association, fund balance is "The difference between assets and liabilities reported in a governmental fund."

Non-Spendable Fund Balance – Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form"

includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale.

Restricted Fund Balance – Amounts that can be spent only for specific purposes (a) stipulated by external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Amounts that can be used only for the specific purposes determined by a formal action of the City Commission, the City's highest level of decision making authority. Commitments may be changed or lifted only by the City Commission taking the same formal action or action of greater dignity than the formal action that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned Fund Balance – Includes spendable fund balance amounts established by management of the City that are intended to be used for specific purposes that are considered neither restricted nor committed.

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

Unrestricted Fund Balance – The total of *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.

Reservations of Fund Balance – Reserves established by City Commission (*committed fund balance*) or City management (*assigned fund balance*).

Section 2: PURPOSE

The City hereby establishes and will maintain Fund Balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund Balance shall be composed of non-spendable, restricted, committed, assigned and unassigned amounts.

A Fund Balance Policy is adopted in order to secure and maintain investment-grade credit ratings, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures and/or revenue shortfalls. Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the

financial position of the City, in accordance with policies established by the City Commission.

This Fund Balance Policy establishes:

- a) Fund balance policy for the general fund;
- b) Unrestricted fund balance targets, and standards for use and replenishment of fund balance reserves;
- c) The method of budgeting the amount of estimated unrestricted fund balance (also known as *estimated beginning fund balance*) available for appropriation during the annual budget adoption process (prior to the actual, audited fund balance being known) and what actions may need to be taken if the actual fund balance is significantly different than the budgeted fund balance; and
- d) Processes for review and revision of the fund balance policy.

Section 3: FUND BALANCE POLICY (GENERAL FUND)

1. STRUCTURAL BALANCE

Fund balance reserves should generally not be used to cover recurring expenses. Excess fund balance reserves can be used to cover one-time expenditures or carried forward for use in future years.

2. NON-SPENDABLE FUND BALANCE

Non-spendable fund balance is established to report items that are not expected to be converted to cash such as inventory and prepaid items; items not currently in cash form such as the long-term amount of loans and notes receivable as well as property acquired for resale; and, items legally or contractually required to be maintained intact such as the corpus (or principal) of a permanent fund.

3. RESTRICTED FUND BALANCE

As previously defined, restricted fund balance represents amounts that can be spent only for specific purposes (a) stipulated by external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation will be budgeted and reported in special revenue funds, capital project funds or debt service funds.

- a. There is a restricted fund balance in the General Fund equal to five (5) percent of general fund expenditures. The restricted fund balance

reflects the City's covenant to maintain a five percent fund balance in the loan agreements with the First Florida Governmental Financing Commission (Section 2.2.e).

4. UNRESTRICTED FUND BALANCE

As previously defined, the unrestricted fund balances is the total of the committed fund balance, the assigned fund balance and the unassigned fund balance.

Committed Fund Balance

Commitment of fund balance may be made from time-to-time by resolution of the City Commission. Commitments may be changed or lifted only by the City Commission taking the same formal action that imposed the constraint originally (resolution). The use (appropriation) of committed fund balances will be considered in conjunction with the annual budget adoption process or by budget amendment approved by resolution of the City Commission during the fiscal year.

- a. Economic Stabilization Reserve: The City will commit an amount equal to five (5) percent of general fund expenditures for an Economic Stabilization Reserve. This reserve will protect the City from adverse financial impacts in the event of unexpected economic events.

Assigned Fund Balance

Assignment of fund balance may be a) made for a specific purpose that is narrower than the general purposes of the government itself; and/or b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

Assigned fund balance shall reflect management's intended use of resources as set forth in the annual budget (and any amendments thereto). Assigned fund balance may or may not be appropriated for expenditure in the subsequent year depending on the timing of the project/reserve for which it was assigned.

Unassigned Fund Balance

Unassigned fund balance is the residual classification for the general fund and represents fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

Section 4: TARGET LEVELS, USE & REPLENISHMENT OF RESERVES

1. FUND BALANCE TARGETS

The minimum **unrestricted fund balance** target for the general fund is 17% of general fund operating expenditures. This is equivalent to the total amount needed to cover two months of operations as recommended by the Government Finance Officers Association. This target is inclusive of any committed or assigned amounts.

2. USE OF FUND BALANCE

Fund balance will generally not be used to pay for recurring expenses.

In the event that an unexpected structural imbalance results in a need to draw-down fund balance reserves, a multi-year plan will be developed by the City Manager to address the imbalance concurrent with the use of fund balance reserves.

3. REPLENISHMENT OF FUND BALANCE

If unrestricted fund balance reserves are drawn down below the established targets, the City Manager will develop and submit to the City Commission a plan for restoring the level of unrestricted fund balance.

If unrestricted fund balance reserves are drawn down to below 50% of the established target, the City Manager will develop and submit to the City Commission a budgetary plan to replenish these reserves in 3 to 5 years.

If unassigned fund balance reserves are drawn down below 25% of the established target, the City Manager will develop and submit to the City Commission a budgetary plan to replenish these reserves in 1 to 3 years.

Section 5: BUDGETING

1. APPROPRIATION OF UNRESTRICTED FUND BALANCE

The actual amount of unrestricted fund balance (total of *committed fund balance*, *assigned fund balance* and *unassigned fund balance*) is not known until the completion of the annual audit which takes place between four to six months after the end of the fiscal year being audited. However, an estimate of unrestricted fund balance (also called *estimated beginning fund balance*) must be made during the annual budget adoption process (July through September) which is prior to the end of the fiscal year, September 30th.

2. ESTIMATED BEGINNING FUND BALANCE.

In order to achieve the most accurate estimate possible, the City Manager or designee shall project both Sources of Funds (revenues, prior years unrestricted fund balances carried forward and other financing sources) and Uses of Funds (operating and non-operating expenditures), including accruals, for each department in each governmental fund through September 30th of the then current fiscal year. These projections will be shown in a separate column entitled "Estimated Actual" for each fund in the proposed, tentative and final budget documents. The difference between the estimated actual sources of funds and estimated actual uses of funds is the calculated estimated beginning fund balance for the subsequent fiscal year. If planned for use in the subsequent fiscal year, committed and assigned fund balance may be included in the estimated beginning fund balance.

3. ESTIMATED ENDING FUND BALANCE.

For the year being budgeted, a calculation of estimated ending fund balance shall also be made. This calculation shall be the difference between the budgeted sources of funds and the budgeted uses of funds as described above.

Since the uses of funds are restricted, committed or assigned in all other governmental fund types there is no policy as to the amount of ending fund balance unless the project is completed and the fund should be closed. In this situation, a residual equity transfer will be made to zero-out any remaining fund balance.

If, after the annual audit, the actual general fund unassigned fund balance is greater than 20 percent of operating expenditures in the general fund, the excess may be used in one or a combination of the following ways:

- a) Left in the general fund to earn interest and roll forward into the subsequent year's beginning fund balance;
- b) Appropriated by resolution of City Commission for a one-time expenditure or opportunity that does not increase recurring operating costs;
- c) Committed to establish or increase a formal stabilization arrangement or reserve (including but not limited to economic stabilization, contingency reserves or disaster reserves); or
- d) Appropriated for start-up expenditures of new programs undertaken at mid-year, provided that such action is considered in the context of Commission-approved multiyear projections of revenues and expenditures.

RESOLUTION ESTABLISHING A FUND BALANCE POLICY FOR THE CITY OF HOLLYWOOD CONSISTENT WITH GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54

Section 6: REVIEW AND REVISION OF FUND BALANCE POLICY

Compliance with the provisions of this policy shall be reviewed by the City Manager as a part of the annual budget adoption process.

At least every five years, City Commission will reaffirm or revise the Fund Balance Policy, including reserve categories and established targets.

Section 7: EFFECTIVE DATE

This Policy shall take effect immediately upon adoption and will be applied beginning with the preparation of the City's September 30, 2011 Comprehensive Annual Financial Report and adoption of the City's Fiscal Year 2011-12 Budget.

PASSED AND ADOPTED this 21 day of Sept, 2011.



PETER BOBER, MAYOR

ATTEST:


PATRICIA A. CERNY, MMC, CITY CLERK

APPROVED AS TO FORM AND LEGALITY
For the use and reliance of the
City of Hollywood, Florida, only.


JEFFREY P. SHEFFEL, CITY ATTORNEY