

(DRAFT) HAYWARD AREA RECREATION AND PARK DISTRICT RESERVE POLICY

Purpose of Reserve Policy

Adequate designations of reserves-funds set aside for various District purposes-are critical to the successful and stable, short and long-term operation of the Hayward Area Recreation and Park District (H.A.R.D.). Adequate reserves for District operations ensure that both the public experience level of service they are accustomed to and the security that the District can respond to unexpected adverse circumstances. Adequate reserves ensure that the District will at all times have sufficient funds available to meet its operating, capital and debt service obligations.

The District manages its working capital in a manner that allows the District to fund expenditure consistent with the adopted budget and that avoids or minimizes borrowing to finance operations. The ability of H.A.R.D. to maintain reserve funds is a critical factor in providing reliable service, mitigating undue fee increases, and ensuring overall financial strength.

Adequate reserves directly affect the District's bond rating and ultimately the ability to access debt markets at favorable interest rates, thereby ensuring the ability to finance and construct the facilities necessary to meet current and future service level needs.

Classification of Fund Balances in the Annual Audited Financial Reports

The accounting standards as established by the Governmental Accounting Standards Board (GASB) require fund balances/reserves of the District to be classified in a certain manner. These classifications are listed and explained in detail in the EXHIBIT A. The reserves included in this policy will be classified in the annual audit, subject to independent auditor's review, in accordance with the GASB 54 requirements as applicable as noted below.

RESERVES ESTABLISHED BY THE BOARD

These reserves are typically required by GASB to be classified as committed or assigned fund balances in the annual audit (see EXHIBIT A).

Cash Flow Reserve (Committed)

This reserve is for the purposes of providing necessary funds to allow the District to continue operate until the next semi-annual (December and April) property tax installment is received from the County of Alameda. With this reserve, when funded, the District will no longer need to borrow funds each year in order to maintain operations until the next property tax installment is received.

This target for reserve will be \$10M, representing one of property tax installment amount.

The use of this reserve does not require specific Board approval because of the recurring nature of the need that it is intended to meet.

Operating Reserve (Assigned)

The purpose of this reserve is to provide contingency funds to cover shortfalls in revenue, unexpected expenditures, and emergencies. The amount of this reserve shall be three months of operating expenses (excluding depreciation) or \$7.5M based on the 2016-17 operating budget.

The use of this reserve requires Board approval.

Liability Reserve (Committed)

The liability reserve is maintained to meet unforeseen liability costs. This reserve will be maintained at the current \$1M, which is equivalent to approximately one year's liability and workers' compensation insurance costs.

The use of this reserve requires Board approval.

Capital Replacement Reserve (Committed)

This fund pays for the replacement of equipment and for major repairs to facilities. This reserve will be funded with \$1M annual transfer from the General Fund to accumulate funds for this purpose. H.A.R.D. currently does not have a fund set aside for this purpose and as a result pays for such costs on a pay-as-you-go basis. The downside to the current practice is that maintenance is often deferred that would ultimately be costlier.

The use of this reserve requires Board approval

Guidelines for Use of Funds in Excess of the Budget.

In the absence of specific Board action, staff shall use the following guidelines to allocate discretionary funds that may become available. Any excess funds will be allocated to the following reserves based on how far each reserve is from the target set by this Policy as well as the short term need at the time:

1. Transfer to Cash Flow Reserve until it reaches the Policy limit.
2. Transfer to Operating Reserve until it reaches the Policy limit.
3. Transfer to Liability Reserve until it reaches the Policy limit.
4. Transfer to Capital Replacement Reserve until it reaches the Policy limit yet to be established.
5. Transfer to the Capital Projects Fund for appropriation within the Capital Improvement Program.
6. Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.
7. It is the intent of the Board to limit use of reserves to address one-time needs.
8. Reserves shall not be used to fund recurring annual operating expenditures.

RESERVES MANDATED BY LAW OR CONTRACT

These reserves are required by GASB to be classified as “Restricted” fund balances in the annual audit (see EXHIBIT A).

Capital Reserve (Restricted)

The purpose of this reserve is to hold funds that are intended for Capital projects. The funds come from sources such as contributions from other agencies, grants, developer contributions and impact fees, or bond proceeds. This fund is spent solely on capital expenditures over the current or future years’ capital budget.

This Capital Reserve is drawn down annually as needed to fund the capital budget. At the end of each fiscal year any unspent budgeted capital amount will be carried forward and used in the following year’s capital budget until the related projects are completed.

The use of this reserve requires Board approval.

Debt Service Reserve (Restricted)

This fund is governed by legal bond covenants for the District’s revenue bonds. Bond covenants require that this fund be maintained at a level sufficient to fund up to maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service obligation. Reserve funds for each revenue bond issue will be used to make the last two semi-annual debt service payments for that issue. Annual interest earnings on bond reserve funds shall be applied to each year’s debt service payments.

The use of this reserve is specified in the bond documents that require Board approval at the time of the bond issuance.

Unassigned Reserves

Unassigned reserves represent a remainder balance of fund balance that is not yet designated or set aside for some use by the Board of Directors.

SUMMARY

The reserve fund policy states that reserves will be maintained to allow for funding of the District’s cash flow, operating, capital, and debt service obligations, as well as funding for unforeseen events. Reserves will be established, replenished, and used only in a manner which allows the District to fund costs consistent with the approved operating and capital budgets. The District’s reserve fund policy shall be periodically reviewed and adjusted to meet the needs of the District.

Classification of Fund Balances/Reserves in the Annual Audited Financial Reports

The accounting standards as established by the Governmental Accounting Standards Board (GASB) require fund balances of the District to be classified as follows:

Nonspendables represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as assets not expected to be converted to cash, such as prepaid, notes receivable, and land held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the Board which may be altered only by resolution of the Board. Nonspendable amounts subject to Board commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board or its designee and may be changed at the discretion of the Board or its designee. This category includes encumbrances; Nonspendables, when it is the District's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed. Through a Board Resolution, the Board has designated the General Manager to determine the amount of assigned fund balances.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.