

CITY OF KEARNEY

BUDGET POLICY STATEMENT AND PROCEDURES

The City of Kearney follows the Statutes of the State of Nebraska (Article 5, et. seq., Nebraska Budget Act) in the preparation of the budget and audit for each fiscal year. An outline of the general accounting and budgeting principles and procedures follows and includes both the statutory requirements and the unique customs of the City of Kearney.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES **FOR GOVERNMENTS**

Generally Accepted Accounting Principles (GAAP) are the accounting rules followed by most accountants in both business and government. GAAP provides a set of uniform minimum standards and guidelines for financial accounting and reporting; therefore, all financial statements prepared on a GAAP basis for similar entities are comparable. GAAP for business and GAAP for governments are different. GAAP for governments emphasizes fund accounting and reporting, "financial flow" operating data (revenues and expenditures), and compliance with finance-related legal and contractual provisions. GAAP for business enterprises emphasize accounting and financial reporting for a business as a whole and the "capital maintenance" operating data (revenues and expenses). GAAP for governments is established by the Governmental Accounting Standards Board, which assumed responsibility from the National Council on Governmental Accounting in 1984.

Since the primary objective of a government is to provide services to its constituents within the guidelines of financial constraints, the purpose of the budget is to indicate where the money to operate the government comes from and how it will be spent. An audit by an independent Certified Public Accountant at the end of the budget year is essential to demonstrate the accountability of the government use of the public resources.

The use of fund accounting is one of the major differences between governmental and commercial accounting. It requires a separate record keeping for each individual fund. Each fund operates as a self-contained entity with its own revenue sources, expenses, assets, liabilities and fund balance. Even though the actual cash is contained in one bank account, a "separate accounting"

is kept of all funds by the use of the computerized accounting system. Funds are segregated for the purpose of carrying on a particular activity. Governments try to maintain a minimum number of funds. The accounting rules that governments follow are applied differently to each fund, and relate to the basis of accounting and measurement focus of each fund type (a glossary of terms is presented near the back of the budget document).

THE ANNUAL BUDGET

The Mayor and Council establish the program priorities and the guidelines within which the budget for the next fiscal year is to be prepared. The City Manager distributes the budget information and guidelines to department heads. The department heads submit their budget requests to the City Manager and the Director of Finance and Administration. The Director of Finance and Administration prepares estimates of revenues. The City Manager checks the accuracy and validity of departmental requests for both operational and capital expenditures. The department heads prepare the schedule for vehicle and/or equipment due for replacement from the five-year Long Range Goals and Capital Improvement Program. The City Manager and the staff prepare a proposed budget by consolidating the budget requests for the current year and the five-year Long Rang Goals and Capital Improvement Program. This is reviewed with the department heads and the final draft is prepared.

Budgets are prepared this year for ***Governmental Funds*** (*General Fund* - General; *Special Revenue Funds* - Transportation, Economic Development Grant, Lottery Trust, Natural Disaster, Off-Street Parking District No. 1; *Capital Projects Funds* - Police Reserve, Fire Reserve, Cemetery Reserve, Park & Recreation Development, Street Improvement, and Special Sales Tax – Capital Improvements/Equipment; *Debt Service Funds* - Public Safety Tax Anticipation Bond, and Various Purpose Bond), ***Proprietary Funds*** (*Enterprise Funds* - Golf, Sanitation, S.W.D.F. Operation & Maintenance, S.W.D.F. Retained Revenue, Sanitary Sewer Operation & Maintenance, Sanitary Sewer Retained Revenues, Sanitary Sewer Revenue Bond, Sanitary Sewer Revenue Bond Reserve, Water Operation & Maintenance, Water Retained Revenues, Water Revenue Bond, Water Revenue Bond Reserve, and Airport; *Internal Service Funds* - Health Insurance, Property & Casualty Insurance, Workers Compensation Insurance, Central Stores, and Vehicle Maintenance), and ***Fiduciary Funds*** (*Pension (And Other Employee Benefit) Trust Funds* - Police Pension; *Agency Funds* - Sales & Use Tax).

A legal notice is published to announce the availability of the proposed budget for review by the general public. This notice also specifies the time, date and place of the public hearing on the budget and the proposed property tax requirement. The public hearing is held on the proposed budget and proposed property tax requirement.

The Mayor and Council adopts, or amends and adopts, the budget and sets the tax requirement for the next fiscal year. The adopted budget is filed with the State Auditor, County Clerk and City Clerk and is placed at the Kearney Public Library and Information Center for check-out. The budgeted figures are entered into the accounting system and the departments are informed of the amount of funds allocated to them.

The new fiscal year begins on October 1.

The legal level of control for the budget is the fund level. The ordinance adopting the budget permits the City Manager to transfer funds as needed to prevent over expenditure of an account. However, if additional expenditures are required or additional revenues are anticipated, the City staff prepares a proposed budget amendment. Proposed amendments are presented to the Mayor and Council for consideration and adoption at the end of the fiscal year during a public hearing.

INTERIM FINANCIAL STATEMENTS AND THE ANNUAL REPORT

Monthly reports of revenues and expenditures and their relation to the budgeted amounts, cash balances, balance sheets for each fund and register of expenditures made are prepared for the City's permanent records and copies are distributed to department heads. The register of expenditures (claims) are included for approval by the Mayor and Council at the regular City Council meetings.

Statements of revenues and expenditures are prepared and presented to the Mayor and Council monthly for their review.

A certified public accountant conducts the annual audit of the City's financial records and presents the audit report to the Mayor and Council.

ORGANIZATION OF FUNDS

The City of Kearney uses the following fund classifications:

- Governmental Funds
 - General Fund
 - Special Revenue Funds
 - Capital Projects Funds
 - Debt Service Funds
- Proprietary Funds
 - Enterprise Funds
 - Internal Service Funds
- Fiduciary Funds
 - Pension Trust Funds
 - Agency Funds

To assist in the actual day-to-day administration of the City and to determine the true cost of providing each service, the major functions of the City are divided into departments. Salaries and other personnel costs, office and other types of supplies, maintenance and repair costs, as well as the unique expenditures of the department are listed in each department to provide further control of costs. Each department will contain expenditures of only one fund. The departments programs are grouped into divisions. The organizational chart shows the City administration and the organization of departments.

GENERAL FUND

The General Fund is used to account for all financial resources not covered under another fund which are traditionally considered governmental functions. The General Fund receives its revenues from the following major sources:

1. Taxes, i.e. Ad Valorem Tax on Real and Personal Property; Sales Tax; In Lieu of Tax on gross receipts (by utilities) for use of City streets and alleys.
2. Charges for Services, including the 12% lease payment by Nebraska Public Power District for the use of the City's electrical distribution system.

3. Intergovernmental-state, including state aid payments.

The expenditures of the General Fund are divided into the following accounts:

- Administrative Services
- Information Technology
- Police - Services
- Police - Records
- Police - Data Processing
- Police - Evidence
- Police - Building
- Fire
- Emergency Management
- Public Works - Building & Zoning
- Public Works - Engineering Support
- Public Works - Administration
- Public Works - Facilities Maintenance
- Cemetery
- Library
- Park & Recreation - Administration
- Recreation
- Park - North
- Aquatics
- Cottonmill
- Park - South

SPECIAL REVENUE FUNDS

Special Revenue Funds operate the same as the General Fund except the revenue is derived from different sources and must be used for a specific purpose. These funds include Transportation, Economic Development Grant, Lottery Trust, Natural Disaster, and Off-Street Parking District No. 1.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for all resources for the construction or acquisition of designated fixed assets. This budget has six Capital Projects

Funds: Police Reserve, Fire Reserve, Cemetery Reserve, Park and Recreation Development, Street Improvement, and Special Sales Tax – Capital Improvements/Equipment.

DEBT SERVICE FUNDS

Monies accumulated to pay bond principal and interest are accounted for in the Debt Service Funds. There are two Debt Service Funds, the Public Safety Tax Anticipation Bond, and the Various Purpose Bond. The Public Safety Tax Anticipation Bonds are supported by a special property tax levy and the Various Purpose General Obligation Bonds are supported by sales tax revenues, special assessments, and highway allocation funds.

ENTERPRISE FUNDS

Funds that operate in a similar fashion to a private business and which, in most cases, operate predominantly on user charges are Enterprise Funds. Spending associated with Enterprise Funds services is controlled by isolating the accounting for them into separate funds and by matching the total cost of providing each service with the user charge revenues generated by it. The City of Kearney operates six Enterprise Funds: Golf, Sanitation, Solid Waste Disposal Facility (SWDF), Sanitary Sewer, Water, and Kearney Municipal Airport Corporation. The budgets presented for Enterprise Funds are the best estimation of management under average use conditions. To facilitate management, the Water Fund is divided into two divisions: Water Production and Water Distribution and are placed under the Utilities Department for administrative supervision. Sanitary Sewer is divided into two divisions also: Wastewater Collection and Wastewater Treatment and are placed under the Utilities Department for administrative supervision. Solid Waste Collection and SWDF are also a responsibility of the Utilities Department. The Municipal Golf Course is responsible to the Park & Recreation Director. The Kearney Municipal Airport Corporation is responsible to the Airport Manager.

INTERNAL SERVICE FUNDS

An Internal Service Fund operates in a manner similar to Enterprise Funds but the "customers" of the Internal Service Fund are other departments. The budgets prepared for these funds are flexible budgets using the best estimations

of management, taking into consideration both the historical costs as well as trends in the industry. Each of the City funds and departments are assessed a share of the cost to operate these funds. Revenue to the funds are the contributions from the other funds and programs; expenses of the funds are the same as any other operating budget. The City operates five Internal Service Funds: Health Insurance, Property & Casualty Insurance, Workers Compensation, Central Stores and Vehicle Maintenance.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Pension (And Other Employee Benefit) Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. The City has one Pension (And Other Employee Benefit) Trust Fund, which is the Police Pension.

AGENCY FUNDS

Agency Funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The City has one Agency Fund, which is the Sales and Use Tax Fund.