

# CITY FINANCIAL STRUCTURE

## **Description of Account Structure**

Accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/retained earnings, revenues and expenditures/expenses. The following fund types are used by the City of Suffolk:

## **Governmental Funds**

Governmental Funds are those through which most governmental functions of the City are financed. The City presents the following major governmental funds:

**General Fund** – The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income. A significant part of the General Fund’s revenues is transferred to other funds and component units, principally to finance the operations of the City of Suffolk Public Schools.

**Capital Projects Fund** – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The City presents the following non-major governmental funds:

## **Special Revenue Funds**

The Special Revenue Funds account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities.

**Aviation Facilities Fund** – The Aviation Facilities Fund accounts for the revenues and expenditures related to the City’s airport. Revenues are derived from fuel sales, the rental of airport hangars and facilities, and the transfer of funding support from the General Fund.

**Downtown Business Overlay District** – The Downtown Business Overlay District accounts for revenues and expenditures related to services provided in the Downtown Business Overlay District. Most revenues are derived from a specific percentage of the annual real estate tax assessments in the Downtown Business Overlay District.

**Road Maintenance Fund** – The Road Maintenance Fund accounts for revenue and expenditures related to maintaining roads city wide. Revenues are derived from the State and sale of service to other funds.

**Consolidated Grants Fund** – The Consolidated Grants Fund accounts for revenues and expenditures involving governmental grant programs.

**Law Library Fund** – The Law Library Fund accounts for the maintenance of a law library. Revenue is derived from court fees.

**Route 17 Taxing District Fund** – The Route 17 Taxing District Fund accounts for revenues and expenditures related to enhanced economic development related services provided in the Route 17 Taxing District. Most revenues are derived from a specific percentage of the annual real estate tax assessments in the Route 17 Taxing District.

### **Proprietary Funds**

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the primary government's business activities are accounted through proprietary funds. The measurement focus is on the determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges for services. Operating expenses include cost of sales and services, personnel, contractual services, and depreciation.

### **Enterprise Funds**

The Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City presents the following major enterprise fund:

**Utility Fund** – The Utility Fund accounts for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, financing and related debt service and capital assets of the water and sewage systems.

The City presents the following non-major enterprise funds:

**Refuse Fund** – The Refuse Fund accounts for the provision of solid waste disposal and recycling services to City residents, as well as landfill post closure requirements.

**Stormwater Utility Fund** – The Stormwater Utility Fund accounts for the maintenance and improvements to the City's stormwater infrastructure.



## **Internal Service Funds**

The Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The Internal Service Funds are included in governmental activities for government-wide reporting purposes. The excess revenue or expenses of the funds are allocated to the appropriate functional activity.

**Information Technology Fund** – The Information Technology Fund accounts for the City's technology infrastructure and allocates costs to the various departments or agencies using the service.

**Fleet Management Fund** – The Fleet Management Fund accounts for the financing of vehicles and the related maintenance, repairs and fuel costs of the City and allocates operating costs to the various departments or agencies using the equipment.

**Risk Management Fund** – The Risk Management Fund accounts for the funding and payment of auto, personal liability, general liability, health insurance, and workers' compensation claims against the City exclusive of the School Board employees. Charges to other funds are based on estimated claims for the year.

## **Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. Fiduciary funds are not included in the government-wide financial statements.

**OPEB Trust Fund** – The OPEB Trust Fund accounts for activities of the City's other post-employment benefits (OPEB). This fund accumulates resources for health insurance for retired employees.

## **Agency Funds**

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

**Special Welfare Fund** – The Special Welfare Fund accounts for receipt of welfare checks and foster children support checks from the state and payments made on behalf of individuals.

**Commonwealth Fund** – The Commonwealth Fund accounts for monies collected by the City on behalf of the Commonwealth of Virginia.

**School Funds** – The School Funds are used to account for the activities of the City of Suffolk Public School System. The appropriation by the City consolidates the funding for the existing three School funds. The School Operating Fund is the general accounting fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues of this fund are derived from State and Federal funds and an annual appropriation from the local government. The School Food Service Fund accounts for the

revenues and expenditures relating to the operation of school cafeterias. Revenues are derived from state and federal funds and the sale of commodities. The School Grant Fund accounts for revenues and expenditures relating to grants received by the School System directly from the federal government.

### **Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities, and proprietary funds, are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The fund financial statements of the Governmental Funds (for the primary government and component units) are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term “available” is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

### **Basis of Budgeting**

The City prepares its annual operating budget providing estimates on the same basis as is used for its accounting and financial reporting noted above in the section entitled “Basis of Accounting”. The City utilizes the following procedures in establishing budgetary data reflected in the basic financial statements:

- The budget is prepared on a “zero base”.
- At least 60 days prior to June 30, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The budget is formulated from estimates of revenues and expected expenditures from each department. The School Board is treated as a single expenditure line item.



- The City Manager submits the proposed budget to City Council, and recommends an appropriation ordinance and an ordinance levying the tax rates for the ensuing year.
- City Council then holds public hearings on the proposed budget. Notice of such public hearing must appear in a local newspaper not less than seven days prior to the hearing.
- The budget must be approved by a majority vote of City Council and legally adopted before July 1. If City Council does not adopt the proposed budget before July 1, the City Manager proposed budget as submitted is automatically adopted.
- Additional appropriations may be made by City Council only if there is an unencumbered fund balance or additional funding becomes available. Supplemental budget appropriations may be approved during the fiscal year.

Formal budgetary integration is employed as a management control device. Annual operating budgets are adopted by ordinance passed by City Council for the General Fund, the Debt Service Fund, the Utility Fund, the Refuse Fund, the Stormwater Utility Fund, the Internal Service Funds and the following Special Revenue Funds: Aviation Facilities, Route 17 Taxing District, Downtown Business Overlay District, Road Maintenance, and Law Library. Annual operating budgets are also adopted for the School Operating, School Food Service and School Grants funds.

The General, Special Revenue, Internal Service and Debt Service Funds' budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgets for proprietary fund types are prepared on the accrual basis of accounting.

Beginning fund balances for budgetary basis presentation purposes are adjusted for the carry-forward or prior year encumbrances. According to City Code, unexpended and unencumbered appropriations lapse at June 30 of each year. Appropriations that have not been expended or lawfully obligated or encumbered at June 30 are carried forward into the following year's appropriations to allow for liquidation of the encumbrances. Continuation of previously authorized projects and grants by the City Council not completed as of June 30 of each year are authorized by ordinance to be reappropriated to the following year to allow for completion.

Individual grants and projects included in the Consolidated Grants Fund and Capital Projects Fund are budgeted separately from the operating budget. These project authorizations do not parallel the City's fiscal year and the accounting, encumbering and controlling of the funds are managed and monitored upon the length of each individual grant or project, which may be more than one year.