

# Finance Committee Meeting

## Topic: Accounting and Budgeting

### Basics



City of Lockport, NY

February 9, 2021

# Why is it Important to Understand Basic Accounting and the Budget?

- Budgets and financial plans provide a framework on how organizations operate and plan to operate in the future.
- In public organizations, the budget is vital as it organizes and dictates priorities and initiatives through the allocation of limited resources.
- Today, we will review the City's current budget and explain some basic principles.

# Fund Accounting

- Governmental organizations abide by fund accounting, that is, separating functions and activities into their own financial centers.
- A key characteristic of fund accounting is that we have multiple 'funds' which each house a number of various departments that intendedly serve the function of the fund.
- We consider each fund distinctly separate from another for most purposes.

# Budget Fundamentals and Coding

- Inside the departments of each fund are revenues (or incomes) and expenditures (or costs).
- Expenditure and revenue codes are divided out by fund, department, category, and line item. For example, A.3410.51010 means:

A.	3410.	51	010
<i>Fund</i>	<i>Department</i>	<i>Category</i>	<i>Line Item</i>
General Fund	Fire Department	Personnel	Full Time Wages

# Common Coding Key

Common Funds	
A	General
CL	Refuse
FX	Water
G	Sewer
H	Capital

Expenditure Categories	
51	Personnel
52	Capital & Equipment
54	Contractual
56 & 57	Loan Repayments
58	Employee Benefits

Revenue Categories	
31	Tax Based
32	Charges and User Fees
33	State Aid
34	Federal Aid
35	Interfund Revenue

*A full detail of department coding and line item coding can be found in the FY 2022 budget document.*

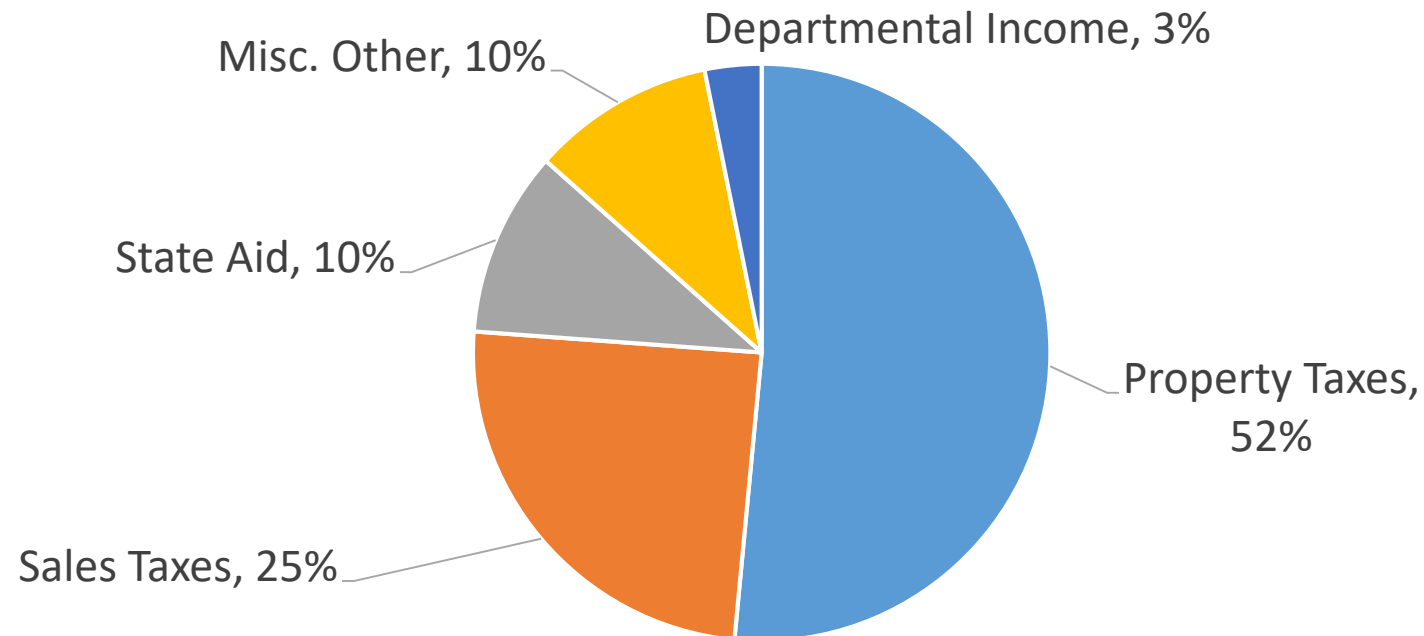
# What Budgeted Funds Do We Have?

- General Fund
- Enterprise Funds
  - Water
  - Sewer
  - Refuse and Recycling
- Internal Service Funds
  - Health Insurance
  - Worker's Compensation



# Major Characteristics of the General Fund

- The General Fund is our primary fund and houses a number of more typical 'governmental activities' such as fire, police, assessment, administrative offices, etc...
- Revenues include:



# Main Characteristics of Enterprise Funds

- Enterprise funds such as refuse and recycling, water, and sewer each houses departments that are central to the functions of the fund.
- Revenues are based on user fees and charges that we charge for the fund activities. If expenditures increase, the user fees and charges typically increase as well.





# Main Characteristics of Internal Service Funds

- Internal service funds are slightly dissimilar to other funds in that they are supported in revenue from other funds through the payroll process.
- Expenditures are locked to specific activities that serve the function of each fund (in our case, we have a health insurance and worker's compensation fund).
- Expenses in A/FX/G payroll get transferred to these funds as revenue and are used to pay medical claims, etc..



# Fund Balance

- While we budget each fund to be balanced, that is, to have revenues equal expenditures, funds will end the year with either a surplus, where there is excess revenue over expenditures, or a deficit, where costs are higher than total revenues.
- The accumulation of prior year surpluses and deficits is referred to as fund balance.
- A positive fund balance means you have had prior budget surpluses greater than your deficits, while a negative fund balance means you have had prior deficits greater than surpluses.

# Example – Refuse Fund FY 2018 – FY 2021

<b>Refuse and Recycling Fund</b>	<b>FY 2018 Actual</b>	<b>FY 2019 Actual</b>	<b>FY 2020 Actual</b>	<b>FY 2021 Amended</b>
<b>Revenues</b>				
Departmental Income	1,305,382	1,306,808	1,317,794	1,307,000
Use of Money and Property	209	0	0	1,000
Sale of Property	2,318	0	0	0
Miscellaneous	0	0	3,673	0
State Aid	0	0	0	0
<b>Total Revenues</b>	<b>1,307,909</b>	<b>1,306,808</b>	<b>1,321,467</b>	<b>1,308,000</b>
<b>Expenditures</b>				
Equipment and Capital Outlay	20,000	36,337	25,455	25,211
Contractual	1,204,595	1,214,949	1,259,195	1,328,507
Debt Principal	25,890	27,200	28,515	29,825
Debt Interest	10,537	9,242	7,882	6,457
<b>Total Expenditures</b>	<b>1,261,022</b>	<b>1,287,728</b>	<b>1,321,047</b>	<b>1,390,000</b>
<i>Excess (Deficit)</i>	<i>46,887</i>	<i>19,079</i>	<i>420</i>	<i>-82,000</i>
<b>Fund Balance at End of Year</b>	<b>396,573</b>	<b>415,652</b>	<b>416,071</b>	<b>334,071</b>
<i>As a Percent of Expenditures</i>	<i>31%</i>	<i>32%</i>	<i>31%</i>	<i>24%</i>

# ~Accounting and Budgeting Basics Takeaways~

- There are three primary types of funds:
  - General, which is supported by property taxes
  - Enterprise (water/sewer/refuse), which are supported by user fees
  - Internal Service (health/worker's compensation), which are supported by premiums
- Each fund houses departments that contains revenues and expenditures.
- At the end of the year, if a fund has more revenue than expenditures, it has a surplus. If not, it has a deficit.
- Fund balance is the accumulation of prior year surpluses/deficits.