

# **BUDGET SUMMARY**

**THE FOLLOWING SUBSECTIONS ARE INCLUDED:**

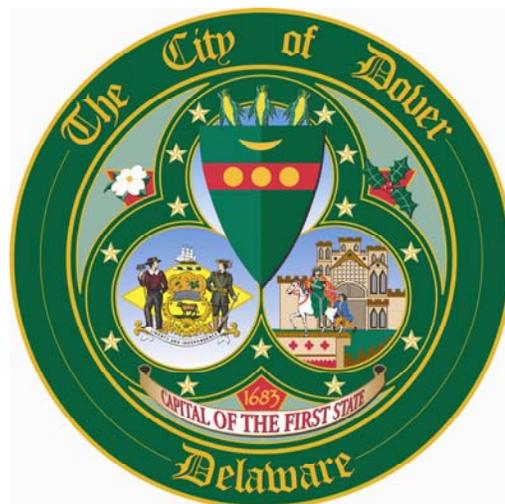
**BUDGET PROCESS**

**CALENDARS**

**BUDGET PROCEDURES**

**SOURCE AND USE OF OPERATING FUNDS**

**COMBINED STATEMENTS SUMMARIES**



## BUDGET PROCESS

The budget process is conducted to comply with all charter mandates.

The City Charter mandates the following:

On or before the second Monday of May each year, the City Manager shall prepare and submit to the Council a budget presenting a financial plan for conducting the affairs of the City for the ensuing fiscal year. The total of proposed expenditures shall not exceed the total of anticipated income.

The budget shall include the following information:

- A detailed statement showing the expenses of conducting each department and office of the City for the current year and last preceding fiscal year
- A detailed estimate of the expenses of conducting each department and office of the City for the ensuing fiscal year with reasons for the increases and decreases recommended
- The value of supplies and materials on hand
- The amount of the debt of the City with a schedule of maturities of bond issues
- A statement showing the amount required for interest on the City debt and for paying off any bonds maturing during the year and the amount required for the sinking fund
- An itemized statement of all anticipated income of the City with a comparative statement of the amounts received by the City from each of the same or similar sources for the last preceding and current fiscal years
- An estimate of the amount of money to be received from taxes
- Other information as the City Manager may think desirable or as may be required by the Council

The Council shall, on or before the second Monday in July in each year, adopt a budget for the succeeding fiscal year. The Council shall, as far as possible, adhere to the budget so adopted in the making of appropriations.

The preparation of the budget begins with the establishment of goals and parameters through the City Manager's office. In November, the Administrative Services Department distributes comprehensive budget instructions to department heads.

The City of Dover's method of budgeting has evolved from concepts of many budgeting methods. A line item form of budget is used to account for expenses and revenues. In recent years, the City has incorporated concepts of programmatic budgeting which focuses on programs performed. Programs are examined periodically for their relevance and effectiveness, a concept which comes from zero-based budgeting philosophy.

In April 2007, budget line items for both the current budget and proposed budget were reviewed with department heads to determine if service levels were to be maintained, improved, or reduced. Revenues were projected as accurately as possible in order to set priorities for proposed expenditures.

The Council reviewed the proposed budget in May 2007 and set June 11, 2007, for the Electric Public Hearing. Public comments on the budget were also sought on this date. The budget is made available at City Hall, the Dover Public Library, and Weyandt Hall which is located at 5 East Reed Street.

According to the ordinance, the proposed budget must go through two readings. After the budget's adoption, monthly financial reports are issued to monitor and control the budget during the fiscal year.

## **AMENDING THE BUDGET**

There are two ways of amending any individual budget. Although the budget is presented as a line item budget, department heads are permitted to change the breakdown within the materials and supplies and administrative groups of accounts (20, 30) as long as the total budgeted for that department is not exceeded. Department heads are not authorized to re-appropriate salary or capital items.

Through budget ordinance, the City Manager has the authority to make interdepartmental transfers of up to five percent as long as financial policies are adhered.

Any re-budgeting of available fund balances must have the approval of the City Council.





## CITY OF DOVER 2007-2008 BUDGET CALENDAR

|                     |   |
|---------------------|---|
| 11/08/06            | Budget kick-off meeting   |
| 11/13/06 – 01/19/07 | Departments' budget preparation   |
| 11/30/06            | New position proposals/revised classification requests due to HR  |
| 12/01/06 – 12/08/06 | Human Resources returns position requests to depts.; meeting with Tony, Terry, and Frank re: requests   |
| 12/18/06 – 12/22/06 | Salary budget packets distributed   |
| 01/05/07            | <ul style="list-style-type: none"> <li>– Salary budgets returned to City Manager's Office, including revised classifications and new positions</li> <li>– Estimated PFP scores for non-bargaining employees due to City Manager's Office</li> </ul> |
| 02/07/07 – 02/21/07 | Revenue review by Revenue Committee   |
| 02/26/07 – 03/23/07 | Work on mid-year review (Terry, Donna)  |
| 02/27/07 – 03/13/07 | Review Council Workshop budget revisions with departments   |
| 02/02/07            | Entry lockout on ALL years  |
| 03/16/07 – 03/20/07 | Draft budget adjusted as per Council Workshop   |
| 03/19/07 – 03/23/07 | Review draft budget with departments; assemble final draft budget   |
| 03/26/07            | Present mid-year review to Council  |
| 03/27/07 – 04/20/07 | Budget team balances budget; makes adjustments w/dept. heads as needed  |
| 05/07/07 – 05/10/07 | Printing of draft budget  |
| 05/11/07 – 05/22/07 | Final draft budget and CD to Council; news conference   |
| 05/23/07 – 06/11/07 | Budget review meetings as needed  |
| 06/11/07            | Electric public hearing; first reading of draft budget  |
| 06/25/07            | Second reading of draft budget  |
| 07/01/07            | Fiscal Year 2007-2008 budget goes into effect   |
| 09/05/07            | Budget post-mortem meeting  |

## CITY OF DOVER 2007-2008 CIP CALENDAR

|                     |   |
|---------------------|---|
| 10/17/06            | CIP instruction packet to department heads                |
| 10/17/06 – 12/01/06 | Departments' CIP development                              |
| 12/01/06            | Departments' CIP information due to City Manager's Office |
| 12/01/06 – 12/15/06 | Draft CIP prepared for review                             |
| 12/18/06 – 12/29/06 | Budget team reviews CIP                                   |
| 01/02/07 – 01/05/07 | Draft CIP final review                                    |
| 01/08/07 – 01/12/07 | Department heads place final CIP into budget              |
| 03/16/07 – 03/20/07 | CIP adjusted as per Council Workshop                      |

## CITY OF DOVER 2007-2008 STRATEGIC PLANNING CALENDAR

|                     |   |
|---------------------|---|
| 07/03/06 – 07/07/06 | I/T Technology Plan Update  |
| 08/14/06 – 08/18/06 | Dept. submissions for I/T Plan due to TAC   |
| 09/04/06 – 09/08/06 | Department heads training on objectives/CIP formulation   |
| 09/04/06 – 09/08/06 | Review Citizen Survey results   |
| 09/11/06 – 09/15/06 | Tech. Planning meeting to review, rank  |
| 09/11/06 – 09/30/06 | – Department heads develop new strategic objectives   |
|                     | – Make changes to department Vision, Major Programs if needed   |
| 09/20/06 – 10/01/06 | Department heads strategic planning meeting with Tony and Terry   |
| 10/02/06 – 10/06/06 | New strategic performance objectives and changes to Vision, Major Programs due to City Manager's Office |
| 10/09/06 – 10/27/06 | Budget Team reviews revised strategic plan and I/T plan   |
| 11/20/06 – 12/01/06 | Final review of strategic performance objectives by Budget Team   |
| 12/04/06 – 12/15/06 | Budget Team assembles strategic plans from departments  |
| 03/15/07            | Council Workshop  |
| 03/16/07 – 03/20/07 | Strategic plan adjusted as per Council Workshop   |
| 04/02/07 – 04/06/07 | City Manager submits Citizen Survey to National Research Center   |
| 04/23/07 – 04/27/07 | New Council members orientation (strategic planning, CIP, budget, PFP)                                  |

## CITY OF DOVER 2007-2008 PAY-FOR-PERFORMANCE CALENDAR

|                     |  |
|---------------------|--|
| 09/11/06 – 10/01/06 | Optional quarterly review to adjust employees' planned goals   |
| 10/02/06            | Quarterly review due to Human Resources  |
| 11/06/06 – 11/17/06 | Employees and supervisor individually review job descriptions  |
| 11/30/06            | New position proposals, revised classification requests due to Human Resources                                   |
| 12/01/06 – 12/08/06 | Human Resources returns position requests to department heads.; meeting with Tony, Terry, and Frank re: requests |
| 12/01/06 – 12/22/06 | Optional quarterly review to adjust employees' planned goals   |
| 12/29/06            | Quarterly review due to Human Resources  |
| 01/05/07            | Estimated PFP scores due to City Manager's Office, including revised classifications and new positions           |
| 03/05/07 – 03/23/07 | Optional quarterly review to adjust employees' planned goals   |
| 03/12/07 – 03/23/07 | Pay-For-Performance training   |
| 03/30/07            | Quarterly review due to Human Resources  |
| 04/30/07 – 05/18/07 | Pay-For-Performance annual evaluations   |
| 05/31/07            | Annual review due to Human Resources   |

## CITY OF DOVER FINANCIAL POLICIES

The purposes of these policies are to present a standardized set of principles that the City follows in managing its financial and budgetary affairs. These are general statements of policies, which represent long-standing principles, traditions, and practices that will be used to guide the City in maintaining financial stability.

### REVENUE POLICY

- The City will strive to maintain a broad and diversified revenue base that will equitably distribute the burden of supporting City services and will protect the City from short-term fluctuations in any one revenue source.
- The City will actively support economic and industrial development recruitment and retention efforts to provide for a solid revenue base.
- The City will maintain timely collection systems and implement necessary enforcement strategies to collect revenues from available sources.
- The City will establish user fees and charges for services, when feasible, at levels related to the cost of providing the services. The City will review the fees and charges every three years to determine modifications needed to keep pace with the cost of providing the services.
- The City will establish, when feasible, self-supporting enterprise funds and intergovernmental service funds in which a relationship between revenues and expenditures clearly exists.
- The City will project current revenues on a conservative basis so the actual revenues will consistently meet or exceed budgeted revenues.
- The City will maintain a budgetary control system and will prepare reports, which compare actual revenues to budgeted amounts.
- The City will limit the designation of General Fund revenues for specified purposes to maximize flexibility in budgeting and revenue utilization.
- The City will review annually and revise, where necessary, its cost allocation formulas, i.e., internal service funds, right-of-way fees.
- Upon satisfying all rate covenants, the City will provide operating transfers to the General Fund from the Water/Wastewater & Electric Utilities no greater than eight percent of the utility operating revenues, excluding the carry forward budget balance, County Sewer Fees, and State Utility Tax.

### EXPENDITURE POLICY

1. Basic and essential services provided by the City will receive first priority for funding, i.e., Public Safety & Health, Utilities, Streets, & Sanitation. The City will establish performance measurements for all program areas, when feasible. These measures will reflect the demand, workload capability, and projected outcomes for the program to accomplish its objectives.
2. The City will adopt a balanced budget, by fund, for all funds maintained by the City, in which total anticipated revenues must equal or exceed the budgeted expenditures for each fund. However, if this cannot be attained, the City will utilize unallocated budget balances, which have been carried forward from prior years as approved by Mayor and Council.
3. The City will maintain a budgetary control system to ensure adherence to the adopted budget and will prepare reports, which compare actual expenditures to budgeted amounts.

4. The City will refrain from budgeting non-recurring or one-time revenue for ongoing expenses. These revenues will be set aside for asset replacement or as otherwise directed by Mayor and Council.
5. The City will provide access to medical, dental, vision, life, AD & D, and short-term disability insurance for its employees. The cost for these benefits will be a shared responsibility between the City and its employees as outlined in the City Personnel Handbook or collective bargaining agreements.
6. The City will provide access to appropriate retirement plans for its employees. The City will make contributions for eligible employees at the actuarial determined percentage defined for each of the respective retirement plans.
7. The City will establish an Other Post-Employment Benefit Fund (OPEB) and provide available funding for early implementation of a new accounting standard promulgated by the Government Accounting Standards Board. When the standard officially takes effect, the City will make contributions for eligible employees and retirees at the actuarial determined rates or percentages to fund future retiree medical benefits.
8. The City will provide access to medical and dental insurance for its retiree's and their families. The cost for these benefits will be a shared responsibility between the City and its retirees as outlined in the City Personnel Handbook or collective bargaining agreements.

#### **DEBT POLICY**

1. The City will maintain a debt management policy and full disclosure on financial reports.
2. The City will maintain communications with bond rating agencies and continue to strive for improvements in the City's bond rating.
3. The City will adhere to its debt covenants.
4. The City will review its debt capacity every three years.
5. The City will pay for all capital projects and capital improvements on a pay-as-you-go basis using current revenues whenever possible. If a project or improvement cannot be financed with current revenues, long-term debt will be recommended.
6. The City will refrain from issuing long-term debt for a period in excess of the expected useful life of the capital project.
7. The City will use special assessment revenue or other self-supporting bonds instead of general obligation bonds, when feasible.
8. The City will seek refinancing of outstanding debt if it is determined that the City will benefit by reduced interest expense over the remaining life of the bonds.

#### **RESERVE POLICY**

1. The City will strive to maintain a minimum Budget Balance, of at least eight percent and no greater than 12 percent of the current year operating revenues for the General Fund, excluding the carry forward balance. The purpose of the budget balance is to meet temporary fluctuations in cash flows and to provide a cushion for loss of revenues until operating changes can be implemented. If the existing Budget Balance exceeds the required level, such funds may be used to provide for non-recurring expenditures when the purchases cannot be accommodated through current year savings. The City may use monies in the Budget Balance only in times of fiscal and economic hardship.

2. Once achieved, at no time should the City's budget balances fall below their specified percentages. If a shortfall occurs in the budget balance and immediately restoring the balances to the specified percentage would cause an extreme burden on the taxpayers, the budget balance may, with the Mayor's and City Council's approval, be restored to the specified percentage within one year, but in any case, no longer than three years.
3. The City will maintain a minimum reserve, in a contingency account, of at least two percent of the current year operating revenues for the General Fund. The City may only use monies in the contingency accounts to cover emergencies of a non-recurring nature that are over and above the normal course of operations. Examples are uninsured losses, storms or hurricane damages. The Contingency Reserve will not be used to balance the operating budget.
4. The total of the General Fund budget and contingency balances shall not exceed 17 percent (~ two months) of Budgeted Operating Revenues.
5. The City will create a Capital Project Fund for Governmental Fund asset procurements. Optimally, the amount set aside for future asset replacements should equal the annual depreciation of the current assets. The City will provide operating fund transfers and/or debt proceeds for each fiscal year's Capital Investment Plan. The City will also appropriate non-recurring revenues, project savings, and project reimbursements to fund this account, or if the balance is less than the \$500,000 minimum, \$200,000 per annum until such time the minimum balance is replenished. All vehicle and equipment purchases under \$25,000 will be budgeted on a pay as you go basis.

#### **INVESTMENT AND CASH MANAGEMENT POLICY**

1. The City will deposit all receipts on a timely basis in interest bearing accounts.
2. The City will strive to maximize the return on its investment portfolio without jeopardizing principal amounts.
3. The City will limit its investments to the types of securities provided for by Delaware statutes.
4. The City will diversify its investments by maturity date to protect against market fluctuations.
5. The City will purchase securities from qualified institutions based on competitive bids in an effort to obtain the highest available rates.
6. The City will maintain an Investment Policy based on prudent investment practices and will monitor all investment managers' compliance with policy objectives.

#### **CAPITAL IMPROVEMENT POLICY**

1. The City will prepare and update, as needed, a five-year Capital Improvements Program (CIP) which will provide for the orderly maintenance, replacement, and expansion of capital assets.
2. The CIP will identify long-range capital projects and capital improvements of all types, which will be coordinated with the annual operating budget to maintain full utilization of available revenue sources.
3. When preparing the CIP, the City will seek to identify all viable capital projects and capital improvements required during the subsequent five-year period. These projects and improvements will be prioritized by year and by funding source.
4. Every attempt will be made to match projects and improvements with available funding sources. Future operating costs and savings associated with a project or an improvement will also be given consideration in the establishment of priorities.
5. The City will seek Federal, State, and other funding to assist in financing capital projects and capital improvements.

6. The City will incorporate the reasonable findings and recommendations of other cities' Boards, Commissions, Committees, and Citizen Task Forces, as they relate to capital projects and improvements.
7. The City will seek input from the public by holding public hearings in relation to the establishment of projects and project priorities.

### **FINANCIAL REPORTING POLICIES**

1. The City's accounting system will maintain records in accordance with accounting standards and principles outlined by the Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and the State of Delaware.
2. The City will employ an independent accounting firm to perform an annual audit of the City's finances and make the annual audit available to all required and interested parties.
3. The City will produce monthly and quarterly financial statements reporting the current periods' activity for all funds maintained by the City.
4. The City will prepare an annual budget document that provides a basic understanding of the City's planned financial operations for the coming fiscal year. Copies of the proposed and final budget will be made available to all interested parties and opportunities will be provided for citizen input prior to final decisions on the budget.
5. The City will place continued emphasis on review and maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable, but not absolute assurance, regarding:
  - (a) the safeguarding of assets against loss from unauthorized use or disposition and
  - (b) the reliability of financial records for preparing financial statements and reports, and the maintaining accountability for assets.
6. The City will seek annual renewal of the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award.

### **LEGEND**

1. Approval by City Council: January 28, 2002
2. Approved by City Council: November 25, 2002
3. Amended by City Council: May 10, 2004
4. Amended by City Council: February 26, 2007

## BUDGET PROCEDURES

Budgets are prepared for the General Fund, Governmental Capital Projects Fund, Water/Wastewater Fund, Water/Wastewater Capital Projects Fund, Electric Revenue Fund, Electric Capital Projects Fund, Municipal Street Aid Fund, Housing Grant Funds, Workers Compensation Fund, Community Transportation Improvement, and DPN.

The Governmental Capital Projects Fund is a section of the General Fund. This section is required by our financial policy. The separate budget for this fund covers the planning and control of only capital items for the General Fund. The Electric Capital Projects Fund and the Water/Wastewater Capital Projects Fund are sections of each utility enterprise. These sections are required by bond resolutions. Separate budgets for these funds cover the planning and control of only capital items of the utilities.

According to the City's procedures the preceding year's ending net budgetary balances are considered resources for the following year. The beginning balances become operating items of revenues in the budgets. Estimated ending budgetary balances provide the balancing amount for each budget. Acceptable budgetary balance guidelines were established by Council. The General Fund should maintain a minimum reserve in the budget balance of at least eight percent and no greater than 12 percent of the current year operating revenues for the General Fund, excluding the carry forward balance. Water/Wastewater should maintain a minimum reserve in the budget balance of at least eight percent and no greater than 17 percent of the current year operating revenues for each of the Water and Wastewater Funds, excluding the carry forward balance. Electric Revenue Fund should maintain a minimum budget balance of at least eight percent and no greater than 12 percent of the current year operating revenues for the Electric Revenue Fund, excluding the carry forward balance.

The City follows the practice of encumbrance accounting for the Governmental Fund types. Encumbrances represent commitments related to unperformed contracts for goods or services. The encumbrances outstanding at year ends are reported as reservations of fund balances and do not constitute expenditures or liabilities. The commitments will be honored during the subsequent year.

The City Council adopts the budget. The City Council also adopts revisions for major items throughout the year. The City Charter requires the City to adhere to the budget appropriations as adopted by City Council. Department managers may not amend the total department budget amounts. Budget ordinances give the City Council the authority to revise budget appropriations. Budget ordinances give the City Manager the authority to transfer amounts not exceeding five percent of the total departmental budget within departments and between departments within funds. This is the legal level of budgetary control. If expenditures exceed appropriations by less than five percent of the total department budget, no formal Council approval procedure is required by the City budget ordinance. However, the City Council reviews all departmental budget activity on a regular basis and must approve all over expenditures of appropriations or transfer of appropriated amounts. All unencumbered appropriations lapse at the end of the fiscal year.

## **BUDGET POLICY GUIDELINES**

The City of Dover follows numerous policy guidelines when preparing the budget. The most significant guidelines follow:

The budget should be balanced with current revenues being equal to or greater than current expenditures/expenses. The following approaches are employed to balance the budget in order of priority: improve productivity, create new service fees, raise existing service fees based on the cost of services, eliminate programs, increase property taxes, and lastly, reduce or eliminate services.

The tax rate should be competitive with nearby cities and cities of comparable size. The rate should produce revenue adequate to pay for approved City services. Qualified senior citizens receive an \$50,000 exemption from assessed value.

The General Fund shall realize returns from the Enterprise Funds. The returns should not sacrifice improvements to the utilities. The budget includes transfers of \$5,601,269 from the Electric Fund and \$565,000 from the Water/Wastewater Fund. A guideline of not more than eight percent of fund revenues is used for these transfers.

Contingency Funds shall be maintained in the General, Water/Wastewater, and Electric Funds. These contingencies should be adequate to handle unexpected expenditures/expenses. The General and Water/Wastewater Funds should maintain an amount equal to at least two percent of the current year operating revenues. The Electric Revenue Fund should maintain an amount equal to at least one percent of the current year operating revenues. The City may only use monies in the contingency funds in times of unforeseen emergency expenditures.

Investments made by the City will address safety, liquidity, and yield. Interest earned from investment of available funds will be distributed to funds according to ownership of the invested funds. The City's investment policy authorizes investment of City funds in U.S. Government Securities, fully-insured or fully-collateralized Certificates of Deposit with federally insured institutions, the State investment pool, and Repurchase Agreements.

Utility rates are reviewed annually to ensure that they will generate revenues adequate to cover operating expenses, meet the legal requirements of bond covenants, and allow adequate capital replacement.

## **CAPITAL INVESTMENTS PLAN AND BUDGET**

The Capital Investments Plan is a five-year plan for the purchase of property, equipment, and public improvements that are of a permanent nature. The City proposes a five-year Capital Investments Plan annually. The capital investments budget is a one-year appropriation of expenditures from the Capital Investments Plan and is normally funded from bond proceeds, grants, and operating funds. Capital expenditures are those which are not a current expense and have a period of usefulness of at least five years. Such items include projects requiring debt obligation, acquisitions or lease of land, purchase of major equipment or vehicles, construction of buildings or facilities, and major improvements.

## EXPLANATION OF FUNDS

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

- Basis of Presentation - Fund Accounting

The accounts of the City are organized based on funds and 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 equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into eight generic fund types and four broad fund categories as follows:

The City reports the following major governmental fund:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Electric Revenue Fund: This fund incorporates all transactions related to the generation transmission and distribution of electricity. PACE Global Asset Management group is contracted to manage the City's power procurement, and North American Energy Services (NAES) is contracted to operate and maintain Dover's power plant.

Water/Wastewater Fund: This fund accounts for transactions related to water and wastewater services, including the payment of fees to Kent County for the treatment of sewage. The City also holds lease agreements with cell phone companies for equipment placed on City water towers.

The City reports the following non-major funds:

Internal Service Fund: The City has created one internal service fund to account for the activities related to self-insured Workers Compensation. Receipts are provide from contributions by the City's three major funds. Expenses are related to payment of claims, premiums, and administration costs. Actuarial analyses are completed triennially to insure sufficient reserves for claims for the Workers Compensation Fund.

Special Revenue Funds: These funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Fiduciary Funds: Fiduciary funds consist of trust and agency funds and are used to report assets held by the City in a trustee or agency capacity for others. These funds are, therefore, not available to support City programs.

The City is the trustee for the City's two pension plans, the Police Pension Fund and the Employee Pension Fund.

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, or other governments. The City has six agency funds: Dover Parking Authority, Library Consortium, Dover Arts Council, Downtown Dover Development Corporation, Main Street Dover, Inc., and Fourth of July Celebration Committee.

The City allocates the costs of certain governmental services to the costs of business-type activities (indirect expense allocation). These costs include allocated amounts of City management, centralized budgetary formulation and oversight, accounting financial reporting, payroll, procurement, contracting and oversight, investing and cash management, personnel services, etc. The allocations are charged to the business-type activities based on the use of these services. As a matter of policy, the costs of certain governmental fuctions are not allocated to the business-type activities such as public safety, library, recreation, community, and economic development.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All Governmental Funds, Expendable Trusts, and Agency Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Revenues that are susceptible to accrual include property taxes and billable service charges. All other revenues are accounted for when they are received.

Property taxes are recognized in the fiscal period for which they are levied provided they are “available” – i.e., they are collected in the current period or are expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues reported in the government funds to be available if the revenues are collected with 60 days after year-end, except for trash collection, which has a 30 day collection period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is principal and interest on general long-term debt which is recognized when due. Also, claims and judgments and compensated absences are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The government-wide financial statements as well as all proprietary and fiduciary trust funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

## **BUDGETARY BASIS OF ACCOUNTING**

The City prepares the budget for Governmental Fund types in which the expenditures are estimated based on liabilities for goods and services to be incurred during the fiscal year. Revenues for the General Fund are budgeted on a cash basis except for property taxes and billable services, which are on a modified accrual basis. Under the cash basis of budgeting transactions are recognized only when cash is actually received. Under modified accrual basis revenues are recorded when they are earned (whether or not cash is received at the time). The expenditures are accounted for when the purchase orders are issued. Encumbrances are established when purchase orders are issued and accounted for as a designation of fund balance at year-end. The budget is amended in the subsequent year for the outstanding encumbrances of the prior year.

Budgets for the Electric Revenue Fund, Water/Wastewater Fund, and Internal Service Fund are prepared on an accrual basis. Revenues are recorded when they are earned, and expenditures are recorded when goods and services are received whether cash disbursements are made at the time or not. Budgets are prepared under the assumption that the principal redemption of long-term debt must be assumed by Enterprise Fund activity in conformity with the bond ordinance.

The budget is presented in this document in the legal budget format (non-GAAP) adopted by the City. Under this method: Capital outlays are considered expenditures; grants are considered as revenues and not contributions to capital; depreciation is not budgeted; debt service proceeds are considered to be revenues, not an increase in liabilities; debt payments are shown as expenditures rather than reductions of liabilities; proceeds from the sale of assets are considered revenue, however, the gain or loss is not.

# COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES ALL GOVERNMENTAL FUND TYPES

Fiscal Year 2008 Budget with Comparison to Fiscal Year 2007 Estimate  
(For Budgetary Purposes Only)

|   | GOVERNMENTAL FUND TYPES |                  | TOTAL GOVERNMENTAL FUNDS |                   |
|---|-------------------------|------------------|--------------------------|-------------------|
|   | GENERAL FUND            | SPECIAL REVENUE  | 2008 BUDGET              | 2007 ESTIMATE     |
| <b>REVENUES:</b>                        |                         |                  |                          |                   |
| FINES AND POLICE REVENUE                | 1,525,000               | -                | 1,525,000                | 1,556,020         |
| LIBRARY REVENUES                        | 391,297                 | -                | 391,297                  | 379,900           |
| BUSINESS LICENSES/PERMITS               | 2,547,343               | -                | 2,547,343                | 2,851,500         |
| MISCELLANEOUS CHARGES                   | 2,820,774               | -                | 2,820,774                | 2,787,007         |
| PROPERTY TAXES                          | 9,453,511               | -                | 9,453,511                | 9,254,909         |
| TRANSFER TAX                            | 2,650,222               | -                | 2,650,222                | 2,900,000         |
| INTEREST EARNED                         | 300,000                 | 283,544          | 583,544                  | 648,800           |
| INTRAFUND SERVICE RECEIPTS              | 4,899,522               | -                | 4,899,522                | 4,845,102         |
| GRANTS RECEIVED                         | 850,609                 | 2,013,324        | 2,863,933                | 3,656,702         |
| TRANSFERS FROM OTHER FUNDS              | 9,153,469               | 1,666,212        | 10,819,681               | 10,126,902        |
| <b>TOTAL REVENUES</b>                   | <b>34,591,747</b>       | <b>3,963,080</b> | <b>38,554,827</b>        | <b>39,006,842</b> |
| <b>EXPENDITURES:</b>                    |                         |                  |                          |                   |
| GENERAL ADMINISTRATION                  | 6,875,999               | -                | 6,875,999                | 6,321,669         |
| PARKS AND RECREATION                    | 1,849,341               | -                | 1,849,341                | 2,826,093         |
| PUBLIC SAFETY                           | 12,440,478              | -                | 12,440,478               | 13,067,403        |
| PUBLIC WORKS                            | 7,130,603               | -                | 7,130,603                | 7,946,526         |
| DEBT SERVICE                            | 437,468                 | -                | 437,468                  | 441,232           |
| TRANSFER TO CONTINGENCY                 | 34,500                  | -                | 34,500                   | -                 |
| TRANSFER TO PARKLAND RESERVE            | -                       | -                | -                        | 360,000           |
| TRANSFER TO LIBRARY RESERVE             | 399,350                 | -                | 399,350                  | 1,620,970         |
| TRANSFER TO OPEB                        | -                       | -                | -                        | 250,000           |
| TRANSFER TO PENSION UNFUNDED LIABILITY  | 89,850                  | -                | 89,850                   | 262,455           |
| TRANSFER TO PENSION COLA                | 44,925                  | -                | 44,925                   | 139,749           |
| TRANSFER TO CAPITAL FUND                | 4,680,362               | -                | 4,680,362                | -                 |
| DSWA RECYCLING PROGRAM                  | -                       | -                | -                        | 24,000            |
| IT EMERGENCY PREPAREDNESS PLAN          | -                       | -                | -                        | 100,000           |
| RETIREEES HEALTH CARE                   | 683,321                 | -                | 683,321                  | 763,982           |
| UNCOLLECTIBLES                          | 10,000                  | -                | 10,000                   | 10,000            |
| PROGRAM EXPENDITURES                    | -                       | 5,181,841        | 5,181,841                | 2,975,741         |
| STREET LIGHTS                           | 575,000                 | -                | 575,000                  | 520,000           |
| <b>TOTAL EXPENDITURES</b>               | <b>35,251,197</b>       | <b>5,181,841</b> | <b>40,433,038</b>        | <b>37,629,820</b> |
| NET INCREASE (DECREASE) IN FUND BALANCE | (659,450)               | (1,218,761)      | (1,878,211)              | 1,377,022         |
| FUND BALANCE - BEGINNING                | 3,542,086               | 8,807,989        | 12,350,075               | 10,973,053        |
| <b>FUND BALANCE - ENDING</b>            | <b>2,882,636</b>        | <b>7,589,228</b> | <b>10,471,864</b>        | <b>12,350,075</b> |

The projected fund balance in the General Fund for June 30, 2008 of \$2,882,636 is eight percent of General Fund operating revenues excluding the carry forward balance. This amount is in compliance with established financial policies. We believe these guidelines will assist us in our efforts to be fiscally responsible. Much of the \$659,450 decrease comes from transferring undesignated General Fund balance (\$533,125) to reserves such as the Library Reserve and pension unfunded liability. Additionally, some Fiscal Year 2007 projects were not completed, and their balances carry forward for rebudgeting in Fiscal Year 2008.

Special Revenue Fund balances are anticipated to decrease by \$1.2 million from \$8.8 million to \$7.6 million. This is due to the transfer of funds from the Parkland/Recreation reserve to the General Fund in the amount of \$2 million. This money was transferred for funding the John W. Pitts Recreation Center. This money was reserved for that purpose and is being transferred as intended.

# COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES ALL PROPRIETARY FUND TYPES

**Fiscal Year 2008 Budget with Comparison to Fiscal Year 2007 Estimate**  
(For Budgetary Purposes Only)

|   | PROPRIETARY FUND TYPE |                     | TOTALS             |                    |
|---|-----------------------|---------------------|--------------------|--------------------|
|   | WATER/<br>WASTEWATER  | ELECTRIC<br>REVENUE | 2008 BUDGET        | 2007 ESTIMATE      |
| <b>REVENUES:</b>                        |                       |                     |                    |                    |
| CHARGES FOR SERVICES                    | 11,144,857            | 95,249,744          | 106,394,601        | 95,243,981         |
| MISCELLANEOUS SERVICES/INCOME           | 2,078,048             | 8,147,909           | 10,225,957         | 11,869,834         |
| BOND ISSUE PROCEEDS                     |                       | 19,500,000          | 19,500,000         |                    |
| INTEREST EARNED                         | 112,000               | 610,000             | 722,000            | 700,000            |
| <b>TOTAL REVENUES</b>                   | <b>13,334,905</b>     | <b>123,507,653</b>  | <b>136,842,558</b> | <b>107,813,815</b> |
|   | 13,334,905            | 123,507,653         |                    |                    |
| <b>EXPENDITURES:</b>                    |                       |                     |                    |                    |
| WATER/WASTEWATER SERVICES               | 4,315,521             | -                   | 4,315,521          | 3,216,225          |
| GENERAL ADMINISTRATION                  | -                     | 744,423             | 744,423            | 590,202            |
| PURCHASED POWER                         | -                     | 71,684,830          | 71,684,830         | 70,864,600         |
| TRANSMISSION/DISTRIBUTION               | -                     | 3,541,793           | 3,541,793          | 3,344,777          |
| ENGINEERING                             | -                     | 1,806,923           | 1,806,923          | 2,029,626          |
| METERING                                | -                     | 318,995             | 318,995            | 312,553            |
| SYSTEM OPERATIONS                       | -                     | 464,503             | 464,503            | -                  |
| UTILITY TAX                             | -                     | 1,599,100           | 1,599,100          | 1,428,100          |
| ALLOWANCE FOR UNCOLLECTIBLES            | -                     | 100,000             | 100,000            | -                  |
| RETIREES HEALTH CARE                    | 113,730               | 464,620             | 578,350            | 677,620            |
| INTERFUND SERVICE FEES                  | 1,363,424             | 3,803,581           | 5,167,005          | 4,845,102          |
| INVENTORY RESERVE                       | -                     | 100,000             | 100,000            | -                  |
| PENSION FUND                            | -                     | -                   | -                  | -                  |
| TRANSFER TO OPEB                        | -                     | -                   | -                  | 150,000            |
| TRANSFER TO PENSION UNFUNDED LIABILITY  | 20,400                | 39,750              | 60,150             | 139,496            |
| TRANSFER TO PENSION COLA                | 10,200                | 19,875              | 30,075             | 141,542            |
| TRANSFER TO WORKERS COMP                | -                     | -                   | -                  | -                  |
| TRANSFER TO GENERAL FUND                | 565,000               | 6,601,269           | 7,166,269          | 5,235,000          |
| TRANSFER TO GREEN ENERGY                | -                     | 134,350             | 134,350            | 134,350            |
| CAPITAL ITEMS                           | 3,848,524             | 18,094,201          | 21,942,725         | 7,432,594          |
| IMPACT FEE RESERVE                      | 384,650               | -                   | 384,650            | 89,756             |
| KENT COUNTY SEWER ADJUSTMENT            | 4,065,467             | -                   | 4,065,467          | 3,664,336          |
| TRANSFER TO CAPITAL ASSET RESERVE       | -                     | -                   | -                  | 895,557            |
| TRANSFER TO CONTINGENCY                 | -                     | -                   | -                  | -                  |
| FUTURE CAPACITY RESERVE                 | -                     | -                   | -                  | -                  |
| RATE STABILIZATION FUND                 | -                     | 1,000,000           | 1,000,000          | -                  |
| INTEREST ON DEPOSITS                    | -                     | 35,000              | 35,000             | 25,000             |
| DEBT SERVICE                            | 180,877               | 3,379,104           | 3,559,981          | 2,708,979          |
| <b>TOTAL EXPENDITURES</b>               | <b>14,867,793</b>     | <b>113,932,317</b>  | <b>128,800,110</b> | <b>107,925,415</b> |
| NET INCREASE (DECREASE) IN FUND BALANCE | (1,532,888)           | 9,575,336           | 8,042,448          | (111,600)          |
| FUND BALANCE - BEGINNING                | 2,235,732             | 7,836,827           | 10,072,559         | 10,184,159         |
| <b>FUND BALANCE - ENDING</b>            | <b>702,844</b>        | <b>17,412,163</b>   | <b>18,115,007</b>  | <b>10,072,559</b>  |

The projected fund balance in the Water/Wastewater Fund for June 30, 2008 of \$702,844 is in compliance with established financial policies adopted by Council. We believe these policies will assist us in our efforts to be fiscally responsible. We believe the decrease in fund balance is the result of increased capital spending in both Water and Wastewater. Water capital spending increased from \$730,672 in FY 2007 to estimates of \$2.3 million in FY 2008. Wastewater capital spending increased from \$1.2 million in FY 2007 to estimates of \$1.5 million in FY 2008. The increases in Capital spending are a result of increased emphasis on water quality improvement projects and wastewater pumping station upgrades. There was also a decrease in capital projects for FY 2007 as the department was experiencing reorganization and changes in personnel. This decrease in projects increased fund balances.

The projected fund balance for the Electric Revenue Fund for June 30, 2008, of \$17,412,163 is in compliance with established financial policies adopted by Council. We believe these policies will assist us in our efforts to be fiscally responsible. We believe the large increase in fund balance is from anticipated bond proceeds of \$9.4 million and a change in fund balance policy. Previously, the fund balance requirement was five percent of revenues minus fund balance. Council changed the policy to be eight percent of revenues minus fund balance. This change resulted in a \$3 million increase to the requirement.

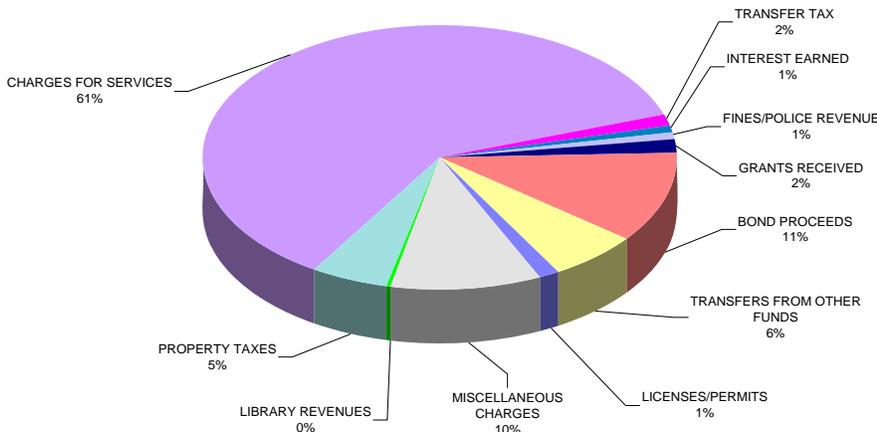
# COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES

## ALL FUND SUMMARY - REVENUES

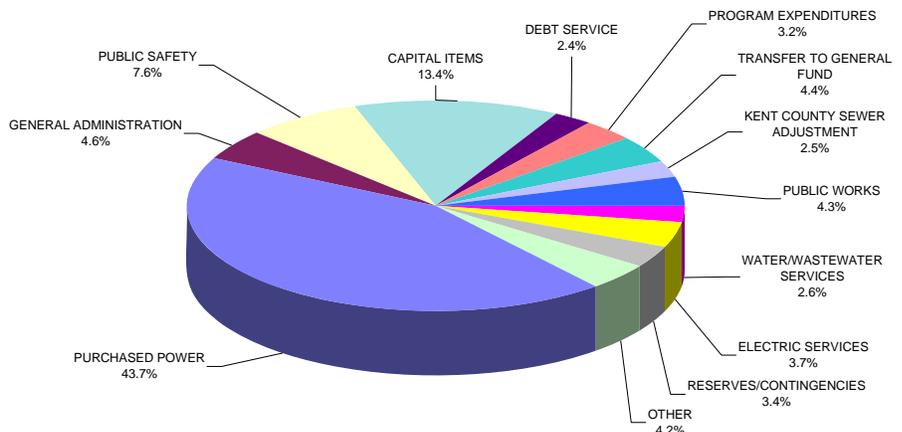
Fiscal Year 2008 Budget with Comparison to Fiscal Year 2007 Estimate  
(For Budgetary Purposes Only)

|                            | FUND SUMMARY TYPES         |                           | TOTALS             |                    |
|----------------------------|----------------------------|---------------------------|--------------------|--------------------|
|                            | GOVERNMENTAL<br>FUND TYPES | PROPRIETARY<br>FUND TYPES | 2008 BUDGET        | 2007 ESTIMATE      |
| <b>REVENUES:</b>           |                            |                           |                    |                    |
| FINES AND POLICE REVENUE   | 1,525,000                  | -                         | 1,525,000          | 1,556,020          |
| LIBRARY REVENUES           | 391,297                    | -                         | 391,297            | 379,900            |
| BUSINESS LICENSES/PERMITS  | 2,547,343                  | -                         | 2,547,343          | 2,851,500          |
| MISCELLANEOUS CHARGES      | 2,820,774                  | 10,225,957                | 13,046,731         | 14,656,841         |
| PROPERTY TAXES             | 9,453,511                  | -                         | 9,453,511          | 9,254,909          |
| TRANSFER TAX               | 2,650,222                  | -                         | 2,650,222          | 2,900,000          |
| INTEREST EARNED            | 583,544                    | 722,000                   | 1,305,544          | 1,348,800          |
| INTRAFUND SERVICE RECEIPTS | 4,899,522                  | -                         | 4,899,522          | 4,845,102          |
| GRANTS RECEIVED            | 2,863,933                  | -                         | 2,863,933          | 3,656,702          |
| TRANSFERS FROM OTHER FUNDS | 10,819,681                 | -                         | 10,819,681         | 10,126,902         |
| BOND ISSUE PROCEEDS        | -                          | 19,500,000                | 19,500,000         | -                  |
| CHARGES FOR SERVICES       | -                          | 106,394,601               | 106,394,601        | 95,243,981         |
| <b>TOTAL REVENUES</b>      | <b>38,554,827</b>          | <b>136,842,558</b>        | <b>175,397,385</b> | <b>146,820,657</b> |

**Distribution of Revenues - All Funds**



**Distribution of Expenditures - All Funds**



# COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN UNDESIGNATED FUND BALANCES ALL FUND SUMMARY - EXPENDITURES

Fiscal Year 2008 Budget with Comparison to Fiscal Year 2007 Estimate  
(For Budgetary Purposes Only)

|   | FUND SUMMARY TYPES         |                           | TOTALS             |                    |
|---|----------------------------|---------------------------|--------------------|--------------------|
|   | GOVERNMENTAL<br>FUND TYPES | PROPRIETARY<br>FUND TYPES | 2008 BUDGET        | 2007 ESTIMATE      |
| <b>EXPENDITURES:</b>                    |                            |                           |                    |                    |
| GENERAL ADMINISTRATION                  | 6,875,999                  | 744,423                   | 7,620,422          | 6,911,871          |
| PARKS AND RECREATION                    | 1,849,341                  | -                         | 1,849,341          | 2,826,093          |
| PUBLIC SAFETY                           | 12,440,478                 | -                         | 12,440,478         | 13,067,403         |
| PUBLIC WORKS                            | 7,130,603                  | -                         | 7,130,603          | 7,946,526          |
| DEBT SERVICE                            | 437,468                    | 3,559,981                 | 3,997,449          | 3,150,211          |
| TRANSFER TO PENSION FUNDS               | -                          | -                         | -                  | -                  |
| TRANSFER TO WORKERS COMP                | -                          | -                         | -                  | -                  |
| TRANSFER TO INVENTORY RESERVE           | -                          | 100,000                   | 100,000            | -                  |
| TRANSFER TO PARKLAND RESERVE            | -                          | -                         | -                  | 360,000            |
| TRANSFER TO LIBRARY RESERVE             | 399,350                    | -                         | 399,350            | 1,620,970          |
| TRANSFER TO CAPITAL ASSET RESERVE       | 4,680,362                  | -                         | 4,680,362          | 895,557            |
| DSWA RECYCLING PROGRAM                  | -                          | -                         | -                  | 24,000             |
| CONTINGENCY                             | 34,500                     | -                         | 34,500             | -                  |
| TRANSFER TO OPEB                        | -                          | -                         | -                  | 400,000            |
| TRANSFER TO PENSION UNFUNDED LIABILITY  | 89,850                     | 60,150                    | 150,000            | 401,951            |
| TRANSFER TO PENSION COLA                | 44,925                     | 30,075                    | 75,000             | 281,291            |
| IT EMERGENCY PREPAREDNESS PLAN          | -                          | -                         | -                  | 100,000            |
| HOMELAND SECURITY GRANT                 | -                          | -                         | -                  | -                  |
| RETIREEES HEALTH CARE                   | 683,321                    | 578,350                   | 1,261,671          | 1,441,602          |
| INTERFUND SERVICE FEES                  | -                          | 5,167,005                 | 5,167,005          | 4,845,102          |
| PROGRAM EXPENDITURES                    | 5,181,841                  | -                         | 5,181,841          | 2,975,741          |
| STREET LIGHTS                           | 575,000                    | -                         | 575,000            | 520,000            |
| WATER/WASTEWATER SERVICES               | -                          | 4,315,521                 | 4,315,521          | 3,216,225          |
| PURCHASED POWER                         | -                          | 71,684,830                | 71,684,830         | 70,864,600         |
| TRANSMISSION AND DISTRIBUTION           | -                          | 3,541,793                 | 3,541,793          | 3,344,777          |
| ENGINEERING                             | -                          | 1,806,923                 | 1,806,923          | 2,029,626          |
| METERING                                | -                          | 318,995                   | 318,995            | 312,553            |
| SYSTEMS OPERATIONS                      | -                          | 464,503                   | 464,503            | -                  |
| UTILITY TAX                             | -                          | 1,599,100                 | 1,599,100          | 1,428,100          |
| ALLOWANCE FOR UNCOLLECTIBLES            | 10,000                     | 100,000                   | 110,000            | 10,000             |
| TRANSFER TO GENERAL FUND                | -                          | 7,166,269                 | 7,166,269          | 5,235,000          |
| TRANSFER TO GREEN ENERGY                | -                          | 134,350                   | 134,350            | 134,350            |
| CAPITAL ITEMS                           | -                          | 21,942,725                | 21,942,725         | 7,432,594          |
| IMPACT FEE RESERVE                      | -                          | 384,650                   | 384,650            | 89,756             |
| KENT COUNTY SEWER ADJUSTMENT            | -                          | 4,065,467                 | 4,065,467          | 3,664,336          |
| FUTURE CAPACITY RESERVE                 | -                          | -                         | -                  | -                  |
| RATE STABILIZATION FUND                 | -                          | 1,000,000                 | 1,000,000          | -                  |
| STREET LIGHT CONTRIBUTION               | -                          | -                         | -                  | -                  |
| INTEREST ON DEPOSITS                    | -                          | 35,000                    | 35,000             | 25,000             |
| <b>TOTAL EXPENDITURES</b>               | <b>40,433,038</b>          | <b>128,800,110</b>        | <b>169,233,148</b> | <b>145,555,235</b> |
| NET INCREASE (DECREASE) IN FUND BALANCE | (1,878,211)                | 8,042,448                 | 6,164,237          | 1,265,422          |
| FUND BALANCE - BEGINNING                | 12,350,075                 | 10,072,559                | 22,422,634         | 21,157,212         |
| <b>FUND BALANCE - ENDING</b>            | <b>10,471,864</b>          | <b>18,115,007</b>         | <b>28,586,871</b>  | <b>22,422,634</b>  |

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