

Budget Process

The City of Newton is governed by a 5-member City Commission. The Budget is prepared by the City Manager according to policies and guidelines set forth by the City Commission.

The budget process is comprehensive and incorporates long-term and short-term strategic planning to best deliver services to citizens. The City's budget year is the calendar year, January—December.

Kansas Statute

The State of Kansas imposes certain guidelines and time frames in the manner that the City adopts and implements its budget.

Budget Law

KSA 79-2925 includes the following provisions

- Cities prepare annual, itemized budgets
- Present the budget no later than August 1
- Do not budget contingency greater than 10% of budgeted expenditures
- Do not budget fund balances (for applicable funds) of more than 5% of fund expenditures
- Adopt the annual budget no later than 10 days prior to August 25
- Provide notices of public hearings
- Provide the adopted budget to the County Clerk by August 25th

Cash Basis Law

KSA 10-1101 includes the following provisions

- The Kansas Cash Basis Law prohibits cities from creating a financial obligation unless there is money on hand in the proper fund with which to pay the indebtedness.
- Municipalities and public libraries in Kansas may not create any indebtedness in excess of the amount of money on hand in the treasury
- A city can issue "no fund warrants" by a resolution of the governing body declaring an extraordinary emergency.

Debt Limit Law

The Debt Limit Law is obtained in KSA 10-308 and limits

the City's maximum eligible debt to no greater than 30% of taxable assessed valuation.

Basis of Accounting & Budgetary Controls

The City's accounting records for general government operations are maintained on a modified accrual basis. Revenues are recorded when available and measurable, and expenditures are recorded when the services or goods are received or when the liabilities are incurred.

Accounting records for the City's utilities and other enterprises are maintained on the accrual basis.

In developing and altering the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance against loss of assets from unauthorized use or disposition. In addition, the controls maintain reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within this framework. The administration believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Expenditures are authorized by a budget approved by the City Commission as required by Kansas statutes. The Assistant City Manager for Budget & Finance and the City Manager continually review all significant deviations from budget authorizations. The Kansas Cash Basis and Budget Laws require cash to be on hand before expenditure is authorized, that all expenditures are budgeted, and that the budget not exceed anticipated revenues including carry-forward balances.

Balanced Budget

State law requires all local governments to operate with a balanced budget for funds that levy a tax. A balanced budget is defined as a budget in which projected revenues and available unencumbered cash are equal to expenditures. The City of Newton's 2013 budget is in compliance with this law.

Banking Arrangements and Cash Management

For several years, the City has utilized a competitive bidding process to select banking services. First Bank of Newton was the successful bidder. Services provided include routine banking services, checking account, and investment of short-term liquid assets. Under terms of the agreement, interest on these funds is paid at a rate pegged to short-term U.S. Treasury bills. Funds not needed in the short term are invested either in local financial institutions or in the Kansas Municipal Investment Pool. The City may only invest in Treasury bills, certificates of deposits, or the Pool.

The Kansas Municipal Investment Pool was created in 1992 to allow municipalities to invest funds with the Kansas State Treasurer, who subsequently invests in federal securities. The State of Kansas guarantees these funds. Prior to investing funds in the Pool, the City must offer funds to qualified local financial institutions. Rates by local institutions are compared to published rates established by the Pool. If local banks are willing to pay the same rate, funds must be invested locally.

In priority order, the basic cash management philosophy of the City is:

1. Protect investment principal.
2. Maintain liquidity.
3. Maximize interest earnings.

All investments are subject to statutory requirements that all investments be 100 percent collateralized by federally guaranteed depository securities.

Budget Amendments

Since the annual operating budget is formulated well in advance of its execution, the City Commission recognized that it may become necessary to amend a budget after adoption. State Statute 79-2929 permits the budgets to be increased for previously unbudgeted increases through revenue other than property tax. It is the policy of the City to amend budget only in extenuating circumstances.

The City may authorize an amendment of any current year budget, at the fund level, after giving public notice and holding a public hearing as required by State Statute.

Long Range Financial Planning

Annually, the City develops a long-range financial plan for a period of five years that is updated throughout the year. The financial plan assists in evaluating current and future fiscal conditions to guide current and future

policy and programmatic decisions. This budget book contains the 2014-2019 Financial Plan.

Capital Improvement Plan (CIP)

The CIP process ensures realistic project planning. The CIP is reviewed as planning for the previous cycle ends. The Director of Public Works/City Engineer leads the City's CIP process. The Public Works Director assists departments in developing new or updating current projects, obtaining accurate estimates, determining potential impact on the operating budget, and submitting project requests for the next five years. In 2010, new guidelines for prioritization of projects were initiated. The new guidelines take into account the project's (i) condition and structural integrity (ii) hierarchy for critical infrastructure as defined by Presidential directive and (iii) projects' alignment with the City's statements of beliefs. After the projects are prioritized, they are presented to the City Commission for approval. There are also a number of cash-funded capital improvements that are budgeted within Departmental operating budgets. The CIP is a separate document that is now separated from the budget book.

Debt Financing & Debt Policy

Large capital improvement projects for the City of Newton normally require long-term financing through municipal bonds. It has been City policy to divide bond issues into ten, fifteen, and twenty-year final maturities based upon the expected useful life of the financed project. This enables the life of the asset to match the term of financing. The practical application of this policy has resulted in most issues being "front loaded." Therefore, annual principal and interest payments are declining over time. This allows the primary financial burden of a project to be borne in its early years rather than deferring financial burden to future taxpayers. In accordance with State Statute, the total eligible City debt cannot exceed 30% of assessed valuation.

Independent Audit

State statutes require an annual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants selected by the City Commission. The firm of Knudsen Monroe & Company, LLC has performed the audit for fiscal years 1994 through 2013.

Purchasing

An important tool in the management of any complex organization is an established set of guidelines setting out the process and procedures for purchasing supplies and services. The City of Newton has followed and adopted guidelines for purchasing for many years. In 2010, the purchasing policy was revised.

Purchasing Cards

To expedite procurement and reduce purchasing and related payment paperwork by reducing the number of purchase order transactions, appropriate City eligible employees are provided a purchasing card. The purchasing card is the preferred means to purchase and pay for eligible goods and services that cost less than \$1,500. Cardholders are encouraged to use the purchase card instead of other modes of payment for City purchases to the maximum extent practicable. The Assistant City Manager for Budget & Finance is responsible for the implementation and oversight of the program. In addition, a program administrator is designated in each appropriate department to review and approve cardholder documentation and reconciliation.

Fund Balance

Fund balance is the amount of unencumbered cash that ensures services could be provided for a short time even if commitments exceeded revenues. In 2011 the City Commission officially adopted a City Fund Balance Policy. The minimum fund balance requirement is equivalent to fifteen percent of the budgeted expenditures in the General Fund and five percent in other eligible funds. For enterprise funds that have debt service, the required debt coverage ratio requires that the ending balance be 1.25% of the following year's debt service.

What is a Mill Levy?

A mill is \$1 of tax for every \$1,000 of assessed value on real and personal property. The mill levy is recalculated every year and is based on the amount of property tax dollars needed to finance the City budget.

The County Clerk calculates the annual mill levy by dividing the total revenue to be obtained from property taxes for each fund by the total assessed value.

Taxes are levied in the previous year to finance the current budgets. For example, 2011 taxes are used to finance the 2012 budget.

What is an assessed value?

The assessed (or "taxable") value of property is a percentage of the property's appraised fair market value. The County Appraiser's Office determines the fair market value of property and sets the appraised value. The appraised value is then multiplied by an assessment rate that is based on the function of the property. The following calculation is used to establish the assessed value

<u>Real Estate</u>		
Residential	Multi-Family, urban or rural	11.5%
Agricultural	Value based on use or production	30.0%
Vacant Lots	For industrial purposes, and buildings and improvements to agricultural land	25.0%
Commercial	Public utility real property, except railroad	33.0%
<u>Personal Property</u>		
Residential	Mobile Homes	11.5%
Mineral Leases	Oil production over 5 barrels/day and natural gas production under 100 mcf/day	25.0%
Public Utility	Inventory, except railroad	33.0%
Machinery	Commercial and Industrial less depreciation	25.0%
	Farm machinery, merchant/manufacturer inventories, livestock	Exempt

What is a fund?

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State Law and by bond covenants. In addition, the City Commission establishes other funds to help control and manage money for particular purposes, or to demonstrate that Newton is complying with legal requirements for using certain taxes, grants, and other money. The City has three kinds of funds, governmental, proprietary and fiduciary funds.

Governmental Funds

Most of the City's basic services are reported in its governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

- General Fund - Accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is the County's primary operating fund. Forty-two departments are listed in the budget, including judicial and law enforcement functions.
- Special Revenue Funds - Account for revenue sources that are legally restricted to expenditure for a specific purpose or required by state law to be a separate fund. Examples include Airport, Library and Special Highway.
- GO Bond & Interest Fund - Accounts for the payment of interest and principal on long term debt.

Proprietary Funds

When the City charges for certain services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported using the full accrual basis of accounting. The City of Newton maintains two different types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities.

- We use Internal Service Funds to report activities provided through one fund for other City programs and activities such as the City's Stores and Maintenance and Self Insurance Funds.

CITY FUND STRUCTURE

Governmental Funds

- General Fund
- Airport
- Community Development
- Library
- Special Alcohol/Drug
- Special Highway
- Special Liability
- Special Parks & Rec
- Convention & Visitors
- GO Bond & Interest
- Special Law Enforcements

Proprietary Funds

- Solid Waste
- Wastewater
- Waterworks
- Internal Service Fund
- Golf Course Fund
- Water Bond & Interest Fund
- Wastewater Bond & Interest Fund
- Golf Debt Service
- Meridian Conference Center

Fiduciary Funds

- Fire/Police Pension

Fiduciary Funds

The City is a trustee, or fiduciary, for certain amounts held on behalf of others. The City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.