

## FINANCIAL STRUCTURE

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### **Description of the Accounting Structure:**

The accounting system used by the City of Chesapeake is organized on the basis of funds or account groups. A fund is defined as a separate, self-balancing set of accounts which is segregated for the purpose of accounting for specific activities or attaining certain objectives. Each fund is comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The following fund types and account groups are used by the City: Governmental Funds (such as the General Fund and Special Revenue Funds), Proprietary Funds (such as the Enterprise Funds and Internal Services Funds), and Fiduciary Funds. The appropriations within each fund are further classified into function codes and expenditures within each function are posted to object codes.

### **Basis of Accounting:**

The City's Comprehensive Annual Financial Report (CAFR) presents the financial position and results of operations for the City operations of various funds, account groups, and component units. It is prepared using "generally accepted accounting principles" (GAAP).

- Under GAAP, the modified accrual basis of accounting is used for governmental (such as the General Fund and special revenue funds) and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Expenditures are recorded when the related fund liability is incurred.
- Under GAAP, the accrual basis of accounting is used for proprietary fund types (enterprise funds) and nonexpendable trust funds. Under the accrual basis of accounting, revenues are recognized when earned, and their expenses are recognized when they are incurred.
- Under GAAP, a government wide financial statement is prepared using accrual basis of accounting. In the government wide financial statement, certain governmental funds are grouped together for reporting purposes.

## FINANCIAL STRUCTURE (continued)

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### **Basis of Budgeting:**

The City's budget preparation conforms to GAAP by using a modified accrual basis for preparing the operating budgets for the general governmental and agency funds and the full accrual basis for enterprise funds. However, the basis of budgeting differs from the basis of accounting in the following areas:

- The City's CAFR includes the Chesapeake Economic Development Authority, the Chesapeake Port Authority, and the Chesapeake Airport Authority as component entities. The Operating and Capital Improvement Budgets do not include estimated revenues and appropriations for the operation of the three authorities. The portion of the revenues derived from City General Fund support of these agencies is reflected in the Operating Budget.
- The estimated revenues and appropriations in the Community Renewal Fund are not included in the estimated revenue and appropriations for the Operating Budget or in the Capital Improvement Budget. The Community Renewal Fund includes revenue from the Community Development Block Grant (CDBG) and the HOME grant. The CDBG and HOME grant are appropriated by Council outside the annual Operating and Capital Improvement Budget cycles.
- The Capital Projects Funds, Utility Construction Funds, and the Community Renewal Fund budgets are adopted on a five-year project basis instead of a fiscal year basis. The first year of the plan is appropriated as the Capital Budget for each fiscal year.
- The purchase of capital outlay is included in the budget in the year of the initial purchase at full cost; capital outlay is not budgeted as a depreciation expense.
- The budget includes purchase orders and similar encumbrances that are recognized as expenditures in the CAFR in a subsequent year.