



Public Budgeting

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South Carolina Association of Counties

2019 Annual Conference

Definition of an Accountant

Someone who solves a problem you did not know you had in a way you do not understand.



Outline

Section One

Environment, Characteristics, Fund Accounting,
Basic Financial Statements

Section Two

Public Budget Process, Types of Budgets,
Revenue Sources & Forecasting,
Tax Levy/Millage Explained

Section Three

Expenditures, Monitoring, Capital Budgeting,
Audit, Policies, Debt Administration, GFOA
Awards Program

Why are you here today?

- To perform stewardship role
- A public office is a public trust
- Even those with experience in private-sector finance will require additional knowledge
- Must understand the basic building blocks of governmental accounting to be fully effective in your position

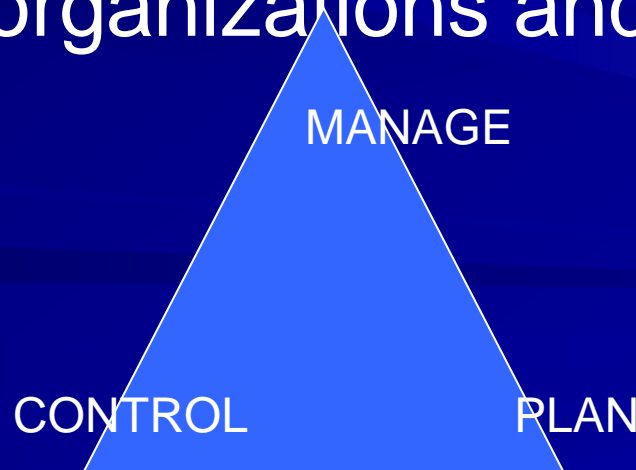
Sooner or later, those who win are those that think they can. Richard Bach

Definition

- A plan to accomplish objectives and goals
- Creates a definite time frame
- Contains estimates of resources , required and available
- Contains estimates of expenditures
- Usually is compared with one or more past periods

Function of Budget

- Plan: Used for implementing policy and to achieve goals
- Control: Using the budget document to control expenditures and to maximize accountability
- Management: Using the budget document to manage organizations and personnel



What is Financial Management?

- A system that obtains, allocates, measures, and expends resources to achieve goals.
- Financial management provides information for decision making.
- Integral part of management
- Affects every employee in the organization
- Plays an indispensable role in the achievement of objectives

Why should you be concerned with Financial Management?

- Governments follow distinctive, specialized accounting and financial reporting standards
- Most governments use accounting model that recognizes separate funds for reporting and stewardship purposes
- Utilizes modified full accrual accounting

Why should you be concerned with Financial Management?

- General Fund typically receives more attention from elected officials than other funds
- To completely understand the entity's total financial picture, elected officials must grasp these nuances and how they apply to their jurisdiction

How to obtain the necessary skills/knowledge?

- Formal training programs
- Excellent materials available from the GFOA
- National Association of Counties
- Reliance upon your staff and management to help you learn and understand the principles
- Technical bulletins and reference materials-READ*READ*AND READ SOME MORE!

TAX LEVY SHEET FROM 1966

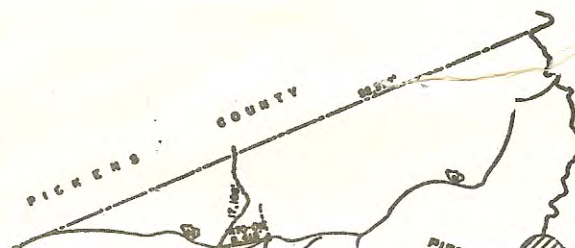
1966 TAX LEVY ANDERSON COUNTY — Anderson, S. C. J. CLINT McCLAIN, Auditor

	SPECIAL SCHOOL	SCHOOL BONDS	COUNTY SCHOOLS	COUNTY LEVY	WATER & SEWER DISTS.	COUNTY FIRE	TOTAL LEVY
School Dist. No. 1	39	4	21½	20½		4	87
School Dist. No. 1 (Brushy Creek Water Shed)	39	2	21½	20½	4	4	91
School Dist. No. 1 (Piedmont)	39	2	21½	20½	40		123
School Dist. No. 1 (Pelzer)	39	2	21½	20½			83
School Dist. No. 1 (Williamston)	39	2	21½	20½			83
School Dist. No. 2	37	12	21½	20½		4	95
School Dist. No. 2 (Belton)	37	12	21½	20½			91
School Dist. No. 2 (Honea Path)	37	12	21½	20½			91
School Dist. No. 3	19	3	21½	20½		4	68
School Dist. No. 4	37	7	21½	20½		4	90
School Dist. No. 5 (Outside City)	53	15	21½	20½		4	114
School Dist. No. 5 (Homeland Park Water Dist.)	53	15	21½	20½	10	4	124
School Dist. No. 5 (Anderson City)	53	15	21½	20½			110

COUNTY LEVY ITEMIZED

Ordinary County	11 ½
County Jail	1
County Library	2
County Hospital	6
TOTAL	20 ½

NOTE: No State Levy



2009 TAX LEVY SHEET – 38 TAX DISTRICTS

TAX DISTRICT	SCHOOL DIST	2009 TAX LEVY ANDERSON COUNTY Jacky Hunter AUDITOR TEL 864-260-4027 FAX 864-260-4206	PICKENS SCHOOLS	TRI COUNTY TEC	SCHOOL OPERATIONS	CAREER AND TECHNOLOGY	COUNTY SCHOOLS	SCHOOL BOND SINKING FUND	COUNTY LEVY	COUNTY SEWER SYSTEM	COUNTY FIRE	METRO EMS	PUBLIC SERVICE DISTRICTS	WATERSHED CONSERVATION	TOTAL
001	ONE		0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
011	ONE	WEST PELZER CITY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839		0.0060					0.2869
*100	ONE	BRUSHY CREEK	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0003		0.2902
*101	ONE	BROADMOUTH	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0016		0.2915
*102	ONE	BIG CREEK	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0013		0.2912
*103	ONE	THREE & TWENTY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060			0.0007		0.2906
120	ONE	WILLIAMSTON CITY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839							0.2809
123	ONE	PIEDMONT	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839				0.0810			0.3619
*124	ONE	SEDGEWOOD	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060		0.0043			0.2942
*125	ONE	SHENANDOAH FEE	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
*126	ONE	THORNWOOD ACRES	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
*127	ONE	BURGESS ESTATES	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839	0.0030	0.0060					0.2899
*128	ONE	PIEDMONT FEE	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839				0.0810			0.3619
130	ONE	EASLEY CITY	0.0037	0.1189	0.0147	0.0177	0.0420	0.0839							0.2809
002	TWO		0.0037	0.1662	0.0147	0.0177	0.0430	0.0839	0.0030	0.0060					0.3382
021	TWO	EMS-1	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839	0.0030	0.0060	0.0032				0.3414
*200	TWO	BROADMOUTH	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839	0.0030	0.0060			0.0016		0.3398
212	TWO	BELTON CITY	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839							0.3292
234	TWO	HONEA PATH CITY	0.0037	0.1662	0.0147	0.0177	0.0430	0.0839							0.3292
003	THREE		0.0037	0.1451		0.0177	0.0340	0.0839	0.0030	0.0060					0.2934
030	THREE	STARR CITY	0.0037	0.1451		0.0177	0.0340	0.0839		0.0060					0.2904
031	THREE	EMS-1	0.0037	0.1451		0.0177	0.0340	0.0839	0.0030	0.0060	0.0032				0.2966
*032	THREE	MOORE MACKEY ROAD FEE	0.0037	0.1451		0.0177	0.0340	0.0839	0.0030	0.0060					0.2934
033	THREE	IVA CITY	0.0037	0.1451		0.0177	0.0340	0.0839		0.0060					0.2904
004	FOUR		0.0037	0.1434		0.0177	0.0400	0.0839	0.0030	0.0060					0.2977
040	FOUR	CLEMSON CITY	0.1681					0.0839		0.0060					0.2580
044	FOUR	PENDLETON CITY		0.0037	0.1434		0.0177	0.0400	0.0839		0.0060				0.2947
*401	FOUR	THREE & TWENTY		0.0037	0.1434		0.0177	0.0400	0.0839	0.0030	0.0060			0.0007	0.2984
*402	FOUR	WHISPERING OAKS / 3 & 20		0.0037	0.1434		0.0177	0.0400	0.0839	0.0030	0.0060			0.0007	0.2984
005	FIVE		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032				0.3044
051	FIVE	EMS-1-EXEMPT		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060				0.3012
*054	FIVE	LBJ		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032			0.3044
*056	FIVE	COBBS GLEN		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032	0.0035		0.3079
500	FIVE	ANDERSON CITY		0.0037	0.1549		0.0177	0.0320	0.0839		0.0032				0.2954
*501	FIVE	ANDERSON CITY TIF 1		0.0037	0.1549		0.0177	0.0320	0.0839		0.0032				0.2954
555	FIVE	HOMELAND PARK		0.0037	0.1549		0.0177	0.0320	0.0839		0.0060	0.0032	0.0158		0.3172
*556	FIVE	HERITAGE AT COBB'S GLEN		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032			0.3044
*557	FIVE	CLARENDON		0.0037	0.1549		0.0177	0.0320	0.0839	0.0030	0.0060	0.0032			0.3044

*REAL PROPERTY DISTRICTS ONLY

Environment and Characteristics



More for Less Paradox

- Political scientists have repeatedly identified a “more for less” paradox
- Surveys have shown that citizens respond “yes” when asked whether current service levels should be expanded, while
- At the same time, they expect taxes and fees to be reduced
- Coping with these pressures makes public budgeting extremely challenging

Success is a state of mind. If you want success, start thinking of yourself as a success.

Anonymous

As you all know, Research funding is tight.
Consequently, I expect you to adopt a "do more with less"
approach in your projects.

By that logic, the less we do, the more we can achieve.
In fact, as our Research activity approaches zero,
our degree of scientific achievement will become infinite.

Are you misinterpreting
what I said again?

More or less.

Characteristics of Gov Organizations

- Absence of profit motive
- Owned by constituents—no stock
- Contributors of resources do not receive proportional share of benefits
- Decisions made—directly or indirectly—by voters
- Meetings where decisions are made usually open to the public

Similarities to the Private Sector

- Operate in the same economy and compete for same resources: financial, capital, and human
- Acquire and convert scarce resources into goods and services
- Use of accounting and other information systems
- Need to operate economically, effectively, and efficiently
- Provide goods and services, many of which may be similar

Differences from the Private Sector

- Organizational objectives
- Sources of financial resources
- Methods of evaluating performance and operating results



Purposes of Business-Type Activities

- Provide same types of services as found in private sector
- Charge fee for services received
- Separate, self-sufficient operations



Issues in Business-Type Activities

- Relationship between services received and resources provided by consumer
- Revenue-producing capital assets
- Similarly designated activities
- Nature of political process
- Budgets and fund accounting

Purpose of Governmental Activities

Provide goods and services that all constituents need regardless of ability to pay for goods and services

Typical Activities of a SLG

- Governmental activities—unique to SLGs
 - Police and fire protection
 - Education
 - Social Services
 - Courts
- Business-type activities—similar to private sector operations
 - Utilities
 - Golf Courses
 - Airports

Organizational Objectives

Businesses

- Operating Motive: maximize income from revenues and other resources
- Operational Focus: report quarterly but look to the long-term as well

Government

- Operating Motive: maximize services provided from revenues and other resources
- Operational Focus: operate on annual budget, so current year is of primary importance

Sources of Financial Resources

- Businesses raise resources from sales or from capital stock and debt transactions—must account for different sources separately
- Governments raise resources from sales or debt transactions—typically no distinction made in sources

Sources of Financial Resources

(not found in private sector)

- Taxes: property taxes, sales taxes, and income taxes
- Intergovernmental revenues: from other governments
- Licenses and permits
- Fines and forfeitures
- Debt proceeds (typically *not* used for operations)

Sources of Financial Resources

- Businesses raise resources from sales or from capital stock and debt transactions—must account for different sources separately
- Governments raise resources from sales or debt transactions—typically no distinction made in sources

Unique Gov Sources

- Involuntary contributions—taxes!
- Donations
- Appropriations and grants from other governmental entities

Evaluating Performance and Operating Results

- In business, continuing a product or service determined by success in marketplace
- In Gov organizations:
 - Profit not a motive and frequently cannot be measured
 - Services not found elsewhere so there is no competition
 - Face rules and regulations not found in private sector

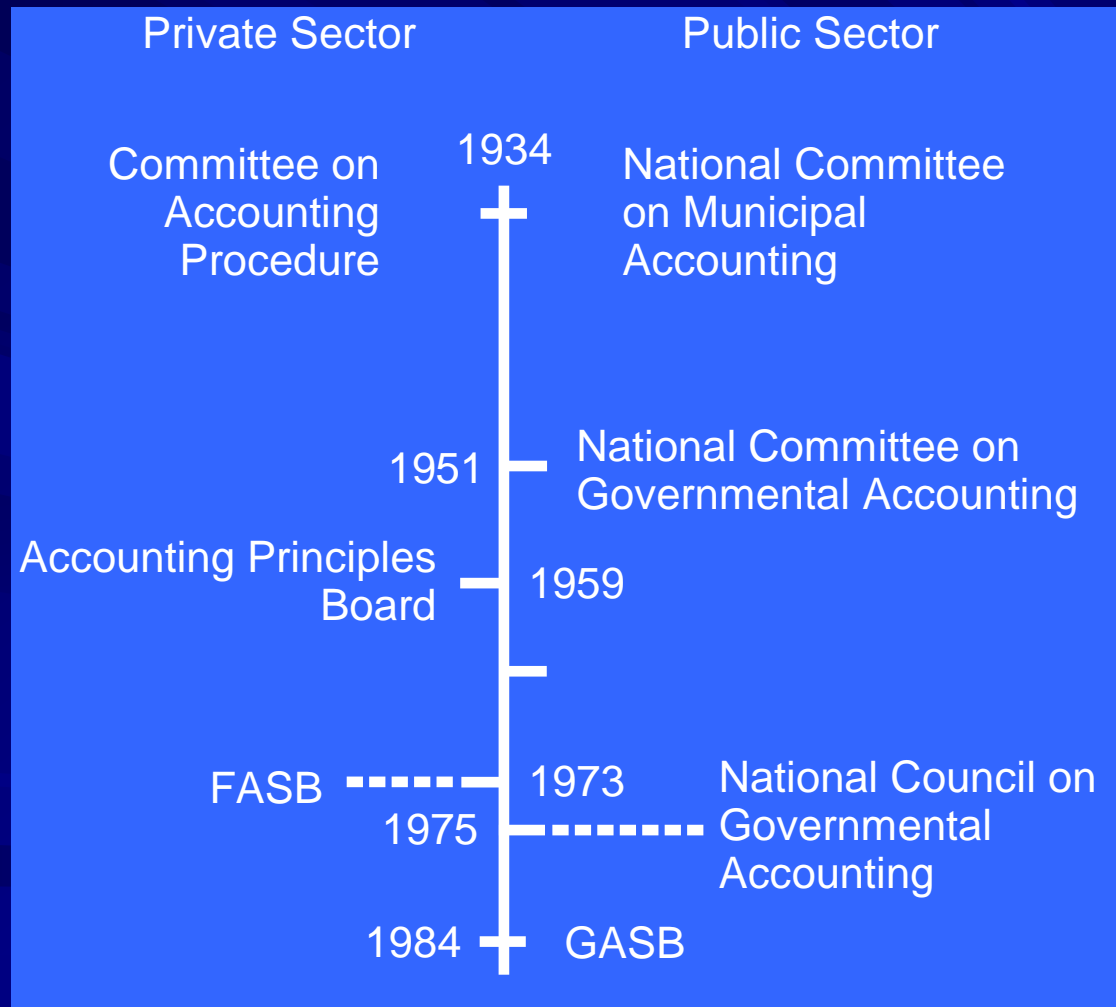
Special Regulations and Controls Applied to Governments

- Organization structure—form; board composition; number & duties of personnel
- Personnel policies and procedures—who has power to appoint or hire personnel; tenure; termination policies; promotion policies
- Sources of financial resources—types and amounts of taxes, licenses, fines or fees; procedure for setting user charges

Special Regulations (continued)

- Use of financial resources—purposes, including legal restrictions; purchasing procedures; budgeting methods
- Accounting
- Financial reporting—type and frequency of reports; format; recipients
- Auditing—frequency; who performs; scope and type; time and place; who receives report

Development of GAAP



Defining a “Government”

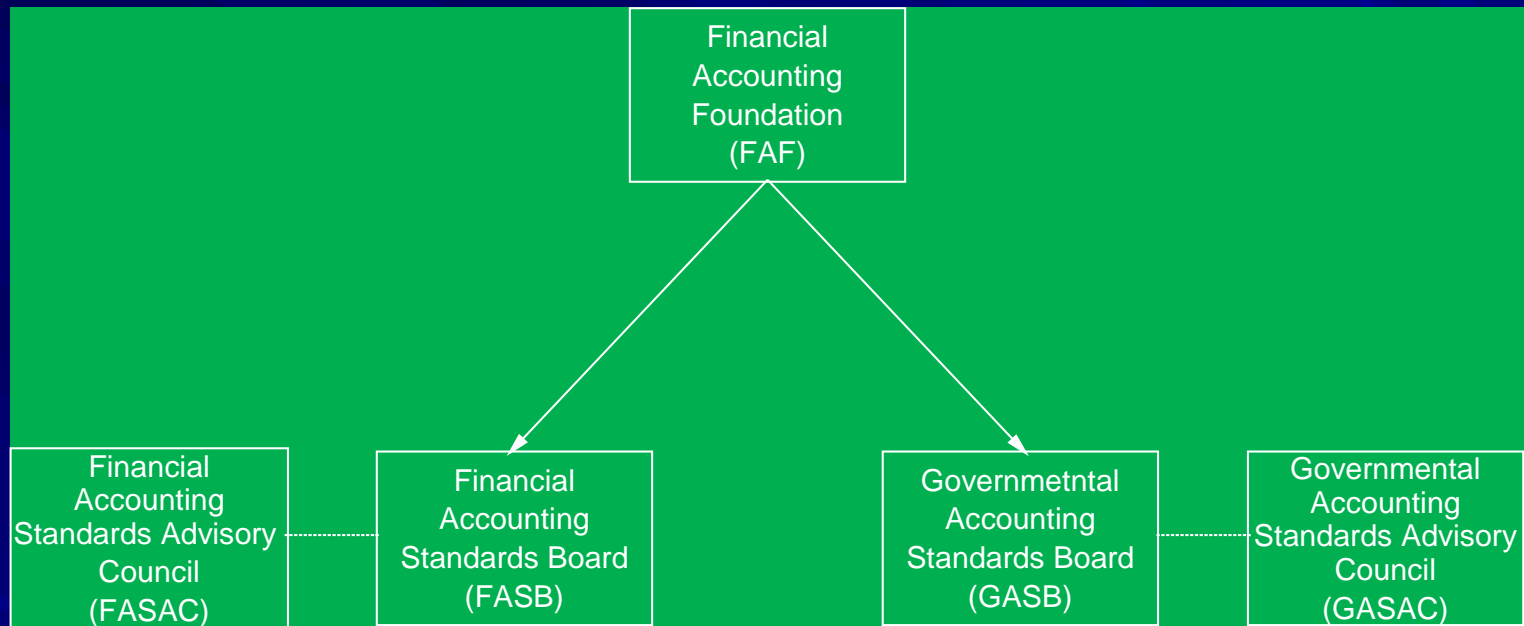
Overall characteristics:

- Public corporations—“an instrumentality of the state, founded and owned in the public interest, supported by public funds, and governed by those deriving their authority from the state”
- Bodies corporate and political

Other Characteristics of a “Government”

- Popular election of officers or appointment (or approval) of a controlling majority of members of governing body by one or more SLGs
- Potential for unilateral dissolution by a government with net assets reverting to government
- Power to enact and enforce a tax levy
- Ability to issue tax exempt debt

Financial Reporting Standards-Setting Structure



SLG GAAP Hierarchy

- A. GASB Statements and Interpretations, which are periodically incorporated into the *Codification*
- B. GASB Technical Bulletins and AICPA Audit Guides and SOPs if made applicable to SLGs and cleared by GASB
- C. AICPA Practice Bulletins if made applicable to SLGs and cleared by GASB, and positions of GASB EITF (does not currently exist)
- D. GASB staff Implementation Guides (Q&As) and widely accepted practice

Other Accounting Literature

Nonauthoritative

- GASB Concepts Statements
- FASB Concepts Statements
- FASAB Statements, Interpretations, TBs, and Concepts Statements
- AICPA Issues Papers
- IPSASB Standards or IFRS
- Accounting textbooks, handbooks, and articles

Resource Allocation Mechanisms

- Restrictions placed by providers: typical of grantors, taxes for specific purposes, and debt proceeds
- Budget—allocates resources to functions
- Holding public officials accountable for actions

Financial Report Uses

- Comparing results with legally adopted budgets
- Assessing financial condition and results of operations
- Assisting in determining compliance with finance-related laws, rules and regulations
- Assisting in evaluating efficiency and effectiveness

Financial Report Users

- The citizenry
- Legislative and oversight bodies
- Investors and creditors

Financial Reporting Objectives of Business-Type Activities

- Enable users to assess accountability
- Provide information about operating results for the period
- Provide information to assess level of services provided

Characteristics of SLG Accounting and Reporting

- Use of fund accounting
- Budgets and appropriations





Public Budgeting Fund Accounting

Always tell the truth-it's the easiest thing to remember. David Mamet

What is Fund Accounting

- Accounting method, or device used to keep track of specific sources of funding and spending for particular purposes
- Some funds are required by State law and by bond covenants
- City/County Council establishes funds to control and manage money and to show that it is properly using certain taxes and grants
- Only the minimum number necessary, no set number
- Each fund contains a self-balancing set of accounts

Usage of Fund Accounting

- The accounts of governments are organized and operated on the basis of funds.
- A fund is an independent fiscal and accounting entity with a self-balancing set of accounts.
- Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Usage of Fund Accounting



A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. (The accounts includes assets, liabilities, equity, revenues and expenditures)

Governmental Funds

- Used to account for general government activities (basic services)
- Include the following types:
 1. General Fund- primary operating fund
 2. Special Revenue Funds- legally restricted for specific purposes
 3. Debt Service Fund – accounts for payment of long-term debt
 4. Capital Projects Funds – accounts for the construction or acquisition of major capital projects

Honesty is the best policy, but insanity is a better defense. Steve Landesberg

Proprietary Funds

- Enterprise Funds – used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is to operate at a profit. Ex: Sewer, Solid Waste
- Internal Service Funds – used to account for activities that produce services to be provided to other County departments on a cost-reimbursement basis. Ex: Fleet Services

Fiduciary Funds

- Fiduciary funds account for assets held in a trustee capacity or as an agent for individuals or other governmental units.
- An Agency Fund is an example of a Fiduciary Fund.
- The Agency Fund is custodial in nature and does not require a budget. Ex: Agency Funds that Treasurer uses to collect School taxes.

The man who has no imagination
has no wings. Muhammad Ali



Basic Financial Statements

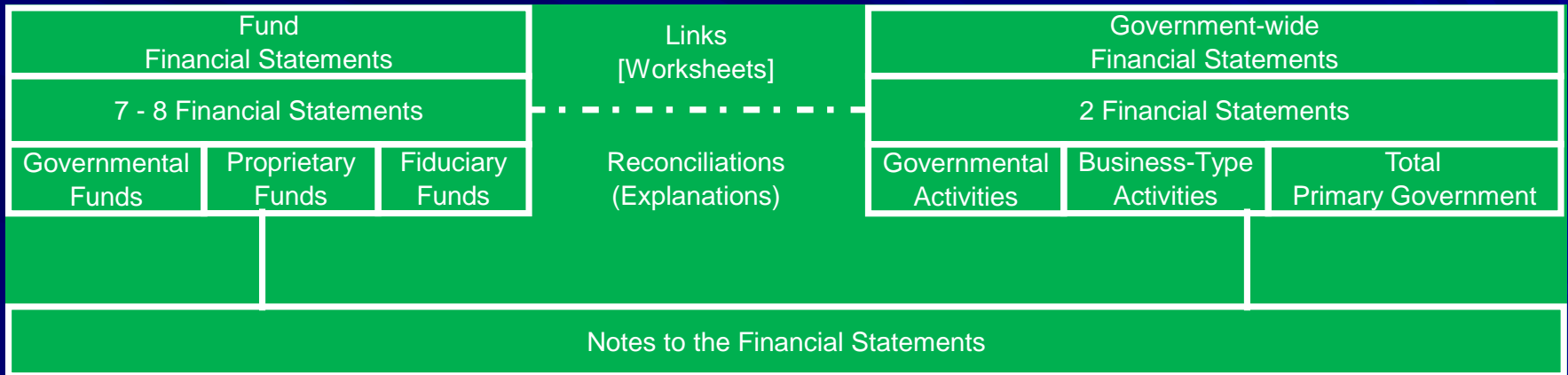
One person with a belief is
equal to a force of ninety-nine
who have only interests.

John Stuart Mill

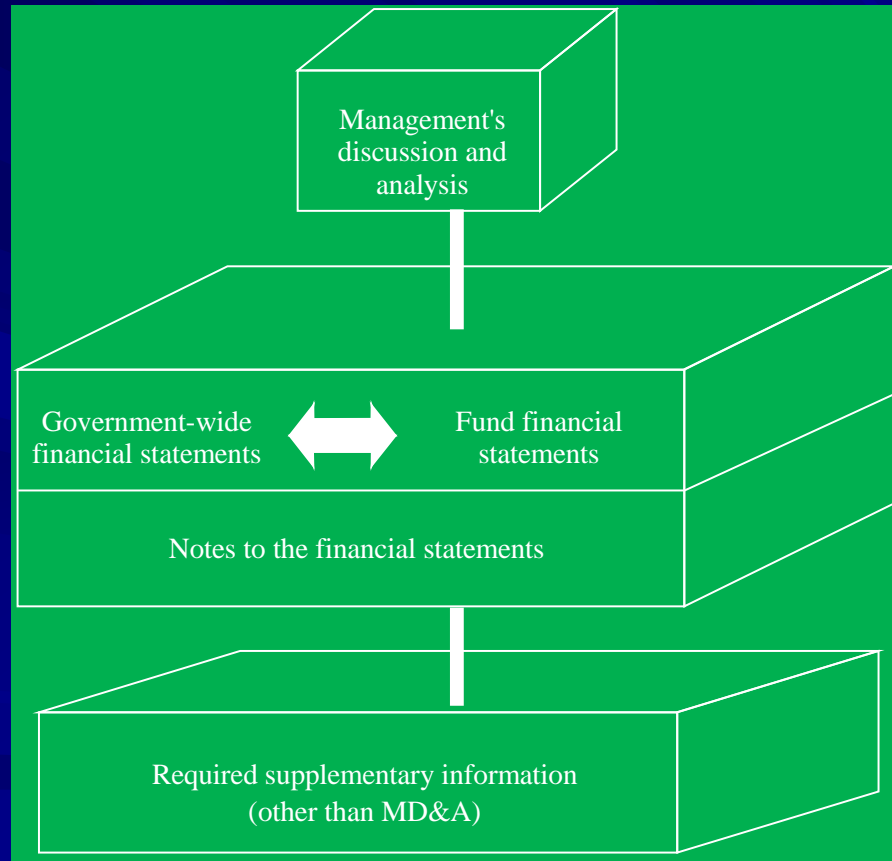
GASBS 34: Basis for Financial Reporting

- Issuance in 1999 marked a major change in governmental financial reporting
- Created dual perspective reporting:
 - Fund financial statements—detailed presentations
 - Government-wide financial statements—condensed consolidated overview

Basic Financial Statements: Overview



Minimum Requirements for External Financial Reporting: The GASB's View



Fundamentals of SLG Accounting and Financial Reporting

1. GAAP and legal compliance
2. Fund accounting
3. Fund categories
4. Types of funds
5. Comparative financial statement formats
6. Annual financial reporting

Comparative Operating Statements

Proprietary Funds

- Accrual-based
- Must distinguish between operating and non-operating revenues and expenses
- Separate reporting for capital contributions, special and extraordinary items, and transfers
- Change in Net Position

Governmental Funds

- Modified accrual-based
- Report revenues by source and expenditures by character
- Other Financing Sources and Uses for other resource flows, including transfers
- Special and extraordinary items reported separately
- Change in Fund Balance

Comparative Balance Sheets

Proprietary Funds

- Current and Noncurrent Assets
- Deferred Outflows
- Current and Noncurrent Liabilities
- Deferred Inflows
- Net Position

Governmental Funds

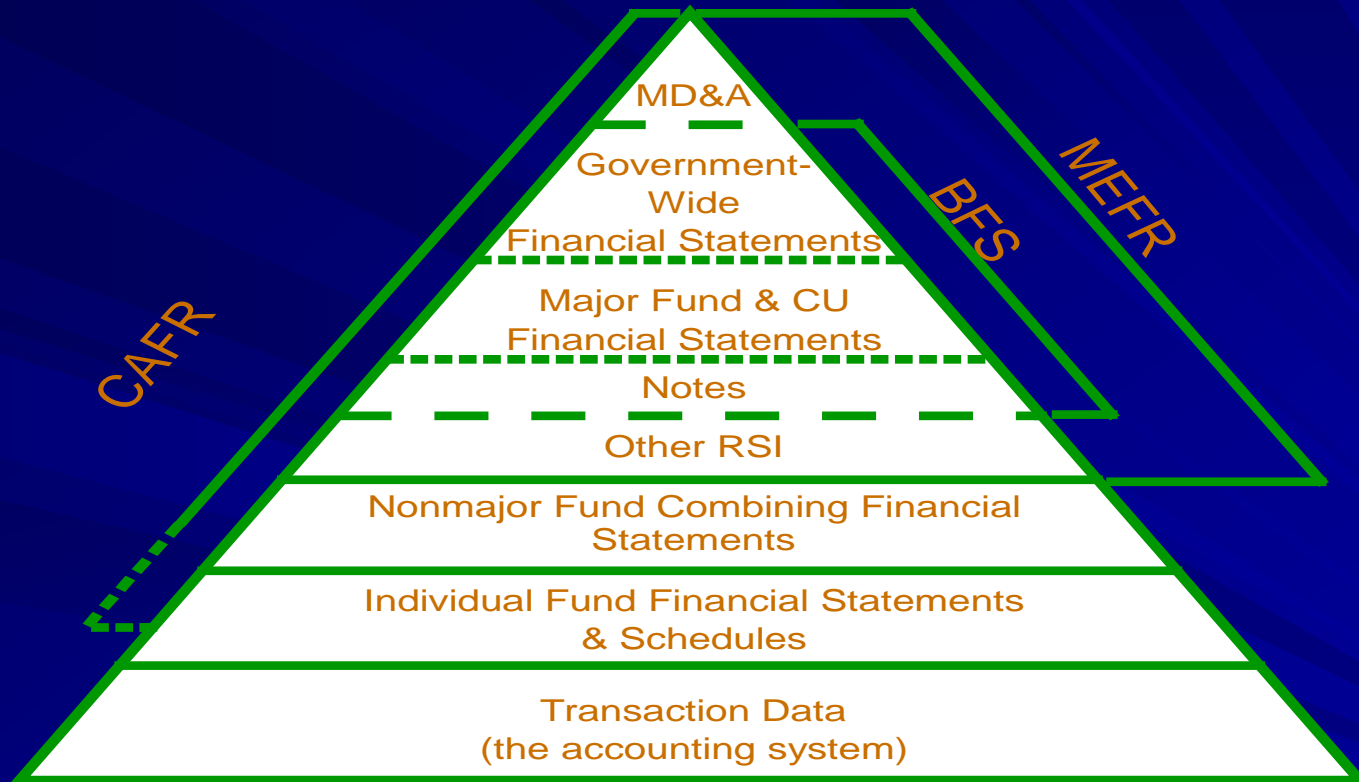
- Financial Assets
- Deferred Outflows
- Related Liabilities
- Deferred Inflows
- Fund Balance

Annual Financial Reporting

Comprehensive Annual Financial Report (CAFR)

- Should be prepared for all governmental entities
- Sections include:
 - Introductory
 - Financial
 - Statistical

Annual Financial Reporting



CAFR--Comprehensive Annual Financial Report

BFS--Basic Financial Statements

MEFR--Minimum External Financial Reporting

Annual Financial Reporting

Minimum reporting requirements

- Management's Discussion and Analysis
- Basic Financial Statements
 - Government-wide financial statements
 - Fund financial statements
 - Notes to the financial statements
- Required supplementary information other than MD&A

Accounting = Language of Business

- System that provides information and reports to stakeholders about the economic activities and the condition of a business
- Reports are used by stakeholders for decision-making
- Who are government's "stakeholders"?
- Important for public officials to familiarize themselves with the basic government financial statements

Those who say it can't be done are usually interrupted by others doing it.

Joel A. Barker

The Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owners Equity}$$

Assets = resources owned by the business

Liabilities = debts of the business (rights of the creditors)

Owners Equity = rights of the owners

Sometimes you will also see the equation stated as follows:

$$\text{Assets} - \text{Liabilities} = \text{Owners Equity}$$

Courage is being scared to death-but
saddling up anyway.

John Wayne

The Accounting Equation

- Examples of Assets: Cash, Land, Buildings, Accounts Receivable, Equipment
Liabilities: Accounts Payable, Wages Payable, Notes Payable, Taxes Payable
- Owners Equity:
- Examples of What is left, the net worth of the business

One man with courage makes
a majority. Andrew Jackson



"Our employees are our greatest asset. I say we sell them."

AHAJOKES.COM

The Accounting Equation

- To illustrate, if the assets owned by a business amount to \$100,000 and the liabilities amount to \$30,000, then the owner's equity is equal to \$_____.
- Remember the equation:

Assets = Liabilities + Owner's Equity, or

Assets – Liabilities = Owner's Equity

Little minds attain and are
subdued by misfortunes; but
great minds rise above them.

Washington Irving

Business Transactions

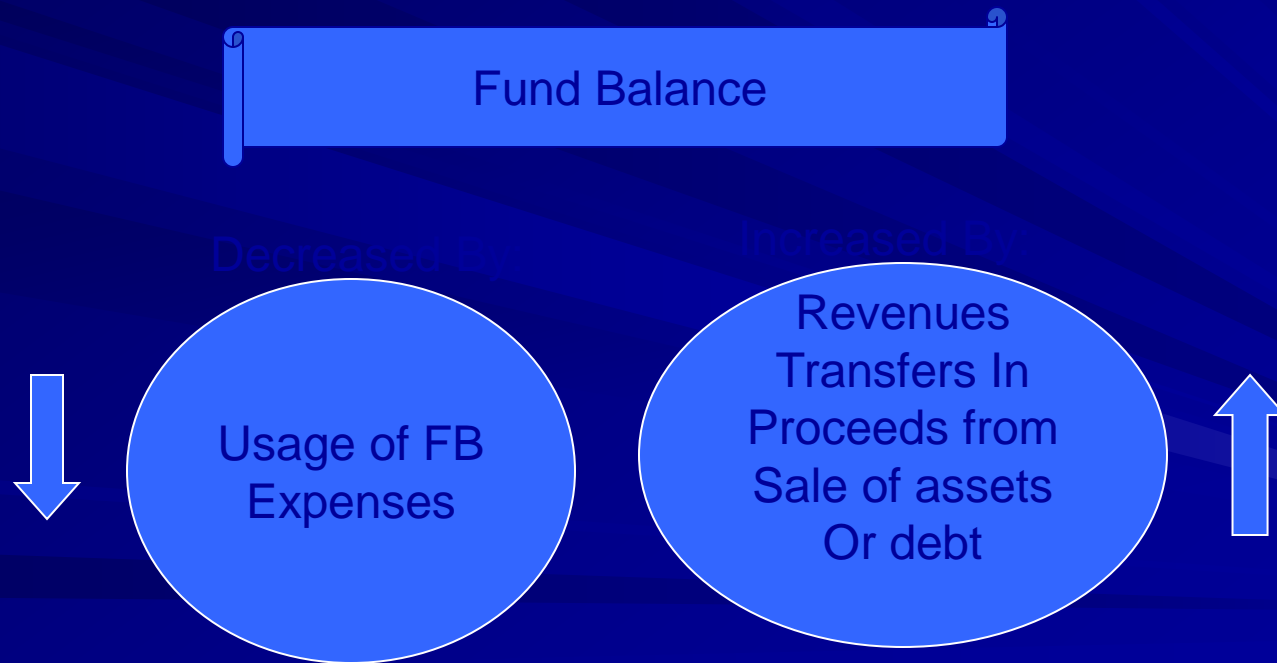
- Economic event or condition that directly affects any one of the three components of the accounting equation
- All business transactions can be stated in terms of changes to the elements of the accounting equation
- For example: Paying a monthly telephone bill of \$200 affects the amount of cash on hand, an asset
- So you have reduced cash by \$200 and also reduced owner's equity by \$200.

The best way out is always through.

Robert Frost

Fund Balance

- In governmental accounting, owner's equity is referred to as Fund Balance



The ultimate goal should be doing your best and enjoying it.

Anonymous

Financial Statements

- After transactions have been recorded and summarized, reports are prepared for users
- These accounting reports are called financial statements
- For a business enterprise the financial statements consist of:
 - Income Statement
 - Statement of Owner's Equity
 - Balance Sheet
 - Statement of Cash Flows

I never had a policy; I have just tried to do my very best each and every day.

Abraham Lincoln

Government Financial Statements

- Similar yet different from normal businesses
- Are assembled into the CAFR – Comprehensive Annual Financial Report
- CAFR commonly referred to as the audit
- Introductory Section
- Financial Section
- Statistical Section

Much good work is lost for the
lack of a little more.

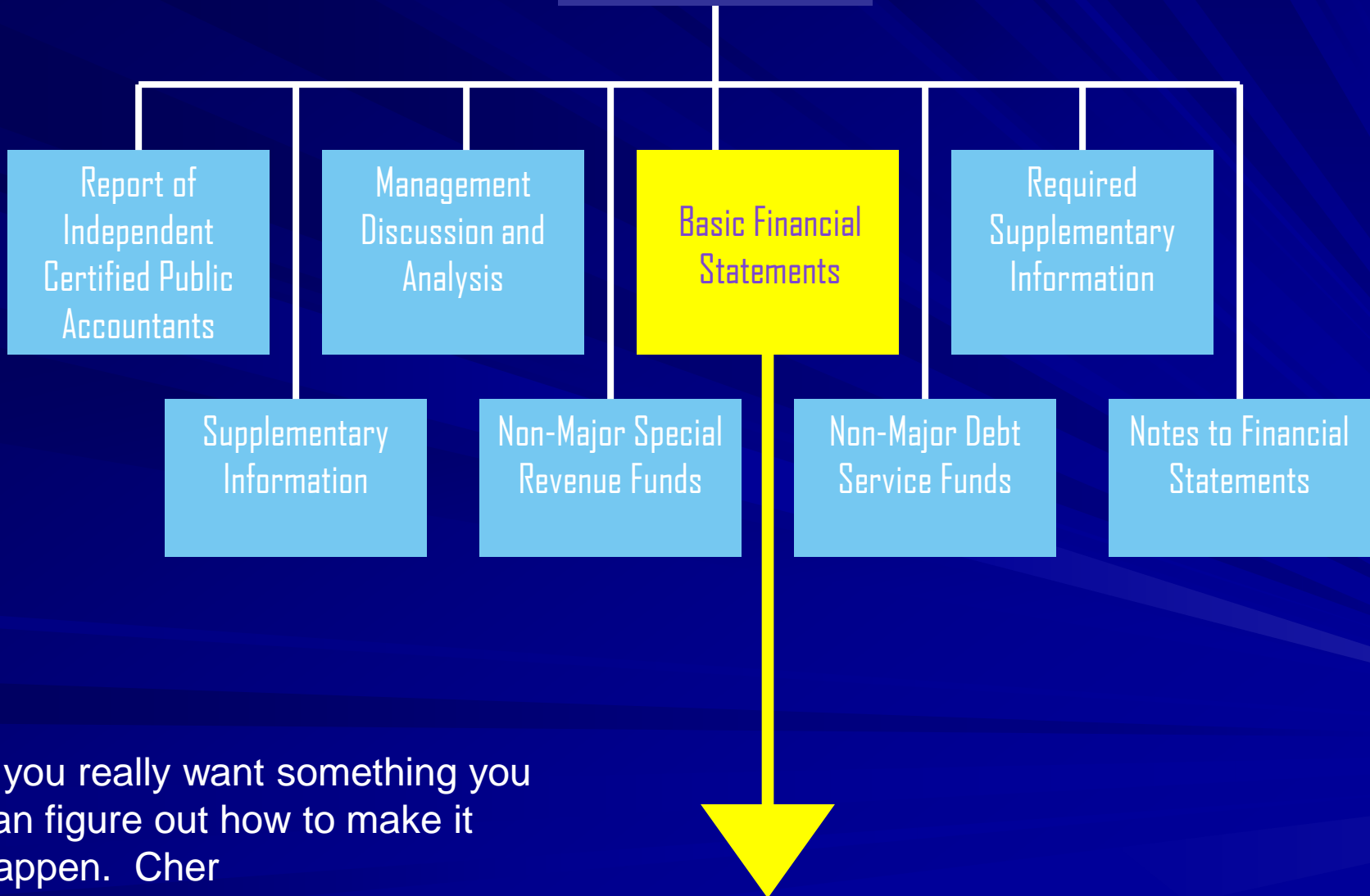
Edward H. Harriman

Financial Section

- Auditor's Report – the opinion
- MDA – Management's Discussion and Analysis
- Basic Financial Statements
 - a) Government-wide Financial Statements
 - b) Statement of Net Assets
 - c) Statement of Activities

The quality of expectations
determines the quality of our
actions. Andre Godin

Financial Section



If you really want something you can figure out how to make it happen. Cher

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net
Assets

Statement of
Activities

Fund Financial Statements

Balance Sheet-
Governmental
Funds

Statement of Net
Assets-
Proprietary Funds

Statement of Cash
Flows- Proprietary
Funds

Statement of
Fiduciary Net
Assets

Reconciliation of Total Governmental Fund
Balances to Net Assets of Governmental
Activities

Statement of Revenues, Expenditures, and
Changes in Fund Balances- Governmental
Funds

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances
to Statement of Activities

Statement of Revenues, Expenses, and
Changes in Fund Net Assets- Proprietary
Funds

CAFR

- You need to know this is where to look for your government's financial statements
- You need to know that they will look different from financial statements you have been accustomed to looking at
- You need to know that the basic accounting equation still applies in government finance
- You need to know enough in order to comprehend the statements and to ask appropriate questions
- Beware having to ask the “perfect” question in order to receive an answer

You will become as small as your controlling desire; as great as your dominant aspiration. James Allen ⁷¹

Government Model for Budgeting, All You Need to Know:

- If you do not spend all of your budget during the year then you obviously did not need it in the first place.
- So, next year's budget is cut.
- If you overspend your budget then the overspend gets taken from next year's budget.
- If you just spend all of your budget in the year then that's obviously a good number and one which should be used for subsequent years.

If it is not right do not do it; if it is not true do not say it. Marcus Aurelius



Finance: Lifeblood of Government

It takes as much imagination to create debt as to create income. Leonard Orr

Finance-Lifeblood of Government



Finance Staff

Promote competent, professional finance management

Seek to retain trained experienced financial managers

Invest in proper staffing, training, compensation, certification, technology

Ensures vital financial policies are understood and implemented



Finance-Lifeline of Government

Governing body responsible for ensuring proper staff to protect government's financial interests

Professional associations should be used to assist in training and continuing education

GFOA-Government Finance Officers Association offers certification and credentialing programs

Financial Management-Multi Disciplines

Strong financial management pays for itself

Risk managers avoid losses

Debt managers reduce long-term borrowing costs

Budgeters encourage long-term financial balance

Benefits administrators seek lower cost, alternative benefit plans

Finance Structure

Streamlined or modernized structure
can improve internal financial controls
as well as operating efficiency

Unified financial structure, with central
responsibility for all financial functions
within one or two offices

Larger entities may employ internal
auditor with significant organization
independence

Financial Study Sessions

Single purpose study sessions can be useful

Promotes better understanding of complex subjects and financial strategies

Once or twice a year the governing body should focus exclusively on financial issues

Ask staff to prepare background materials and to make succinct presentations

Financial Study Sessions- Topics



Provides an
Excellent
forum
For staff to
discuss
issues with
elected
leaders

Organization Structure
Debt Management
Capital Financing, needs and plans
Long-term benefits obligations
Economic trends
Performance measures
Financial information technology
Insurance and risk management
Internal Controls
Legislative Updates

New-Member Orientations

Newly elected officials should
receive a professionally prepared
financial orientation

High level overview of latest
budget and annual financial report

Government's basic fund and
accounting structure

New-Member Orientations

Short/long-term financial condition

Problems, strategies

Financial oversight and controls

Backgrounds on other financial
concerns that they will be faced
with during their terms





Indicators of Financial Condition

Indicators of Strong Financial Management

GFOA Awards:

The most coveted is the Certificate of Achievement for Excellence in Financial Reporting.

Also important and sought after is the GFOA Distinguished Budget Presentation Award.

These awards represents the highest financial reporting honor any governmental unit can achieve, and is judged as to its adherence to program standards established by the GFOA.

Adequacy of Financial Reserves

Size of fund balance in relation to its budget

Found in the audited financial statements, in balance sheet

$$\text{Total Assets} - \text{Total Liabilities} = \text{Fund Balance}$$

Adequacy of Financial Reserves

Fund Balance divided into reserved funds and unreserved

Reserved = legally set aside for specific future purpose

Unreserved = used as the jurisdiction sees fit

Can also have “Designated” portion of the unreserved fund balance

Adequacy of Financial Reserves

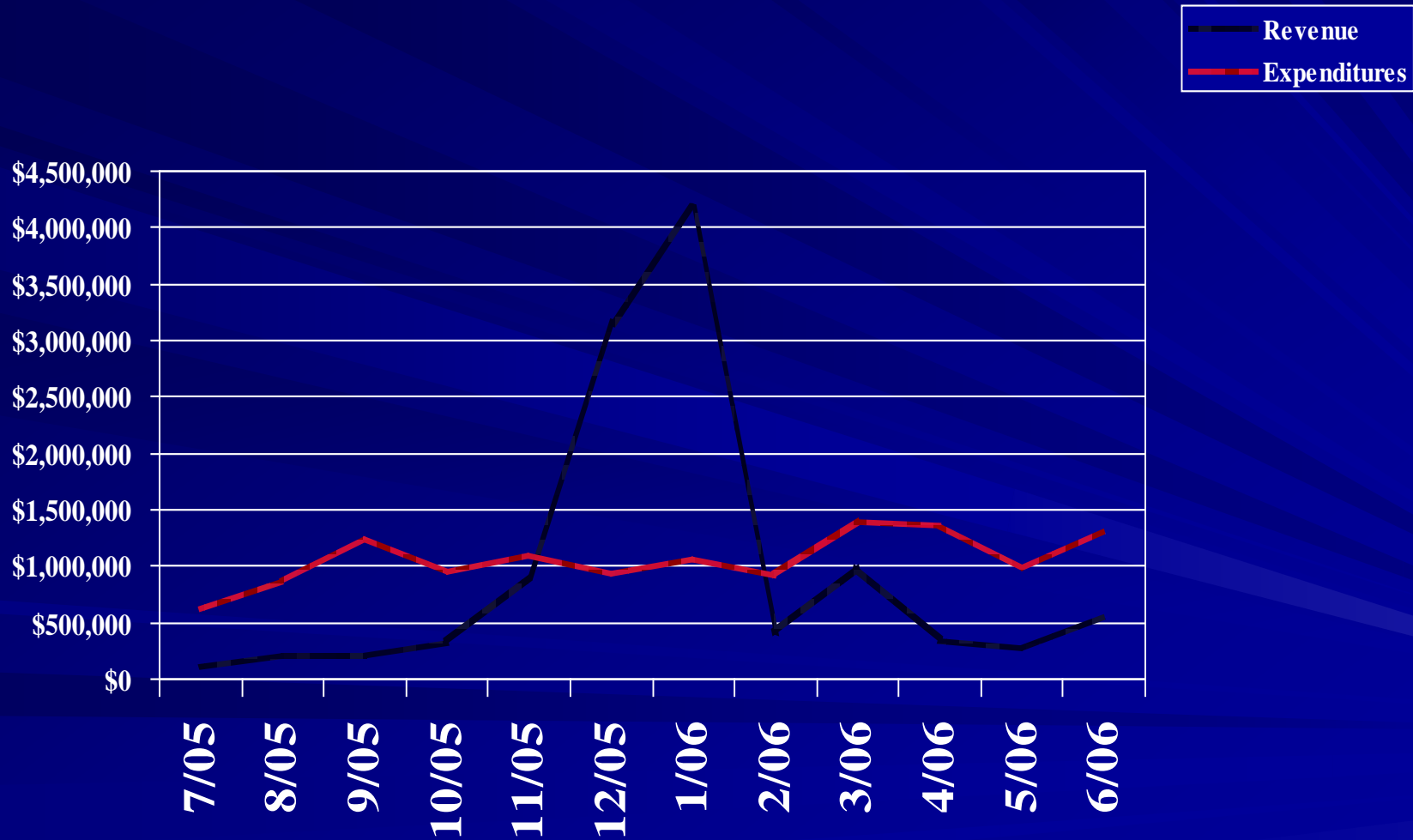
GFOA recommends range of 5 – 15% of operating revenues

An unreserved fund balance in this range is one sign of fiscal health

Less than 5% suggests lack of financial flexibility

Healthy fund balance allows the jurisdiction to meet its cash flow needs without borrowing

TYPICAL CASH FLOW OF COUNTY GOVERNMENT



Provide financial information and
reports online

Urge management to publish key
financial documents online

Financial transparency is essential and
feasible in Internet age

Require a web presence

If resources are available, should really
go beyond the basics

Provide financial information and reports online

Establish user-friendly formats, graphics, charts to enhance readability

New search technologies enable online users to drill down to obtain data on detailed level

Benefits citizens as well as employees, investors, financial community

Ideas for online information

Check register

Credit card expenditures/summaries

Policies

Financial reports, interim summary of
revenues and expenditures

Recent Official Statements for debt
issuances and rating agency reports

Performance information

Online Financial Information

Requires resources

Static reports vs. user-friendly
formats, graphics, charts

Special purpose reports,
unaudited interim financial
information

Easier than traditional paper
(and less costly)

Online Financial Information

How many are already posting at least some financial information online?

Will continue to see movement toward more and more online information

Recent legislation

Must be careful to redact confidential information, such as SSN's, driver's license #'s, employee addresses, etc

Until it is streamlined we will have to spend time to protect the confidential information



The Public Budget Process

It takes as much imagination to create debt as to create income. Leonard Orr

The Budget

One who has imagination without learning has wings without feet.

Joseph Joubert

- Fiscal plan
- ESTIMATE
- Perhaps the most important planning tool an elected body has
- Defines the work that is to be done
- Lays out the cost of that work, or the resources to be utilized

The Budget

- The purpose of a budget is to establish a plan for how resources will be deployed in such a way that realizes the vision and priorities of the citizens as expressed through their elected leaders.

The Budget

- The purpose of a budget is to create accountability and to measure the allocation and expenditure of resources.
- Resources: Human Capital, Cash, Time, Equipment
- A budget is a working plan and keeps staff accountable
- Accountable not only to management but ultimately to the public.

The Budget Process

- Most counties begin preparing budget 4 to 6 months before beginning of fiscal year
- Typically department heads will prepare departmental budgets, then these are rolled up into divisional budgets.
- All departments and divisions are combined, along with all Elected Officials to form the total budget.

If everyone is thinking alike then somebody isn't thinking.

George S. Patton

The Budget Process

- Council will often conduct a retreat, or a planning session before or during the budget process
- This sets the overall direction for the budget
- Can, and should, include specific goals and objectives to be achieved, and included in the budget
- Many goals span more than one fiscal year so it is important, especially as new Council members arrive, to review those goals annually.

Wicked men obey from fear;
good men, from love. Aristotle

The Budget Process

- Usually in April or May, staff will make a formal budget presentation to Council
- Council begins the process of reviewing the proposal and making changes to the plan
- The budget plan is codified in the form of a budget ordinance which requires three readings by Council for approval

Opportunity dances with those who are ready on the dance floor.

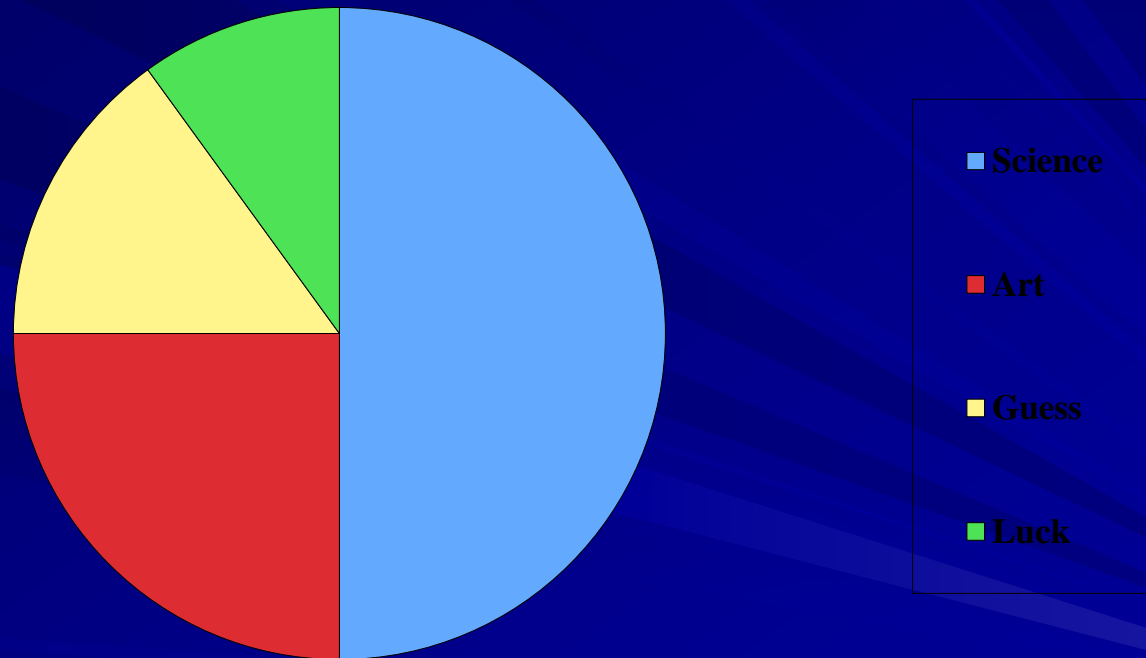
H. Jackson Brown, Jr.

The Budget Ordinance

- Legal document that describes and lists all sources of revenue and all planned expenditures
- Can be amended during the budget year in the same manner in which the original budget ordinance was approved, i.e. by three readings and a public hearing

Opportunities are usually disguised as hard work, so most people don't recognize them.

The Budget – A Craft



Enemies are so stimulating.
Katharine Hepburn

The Budget – A Craft

- Budgeting is more than educated guessing
- Rely upon past trends to develop estimates
- Also must have in-depth knowledge of what may impact your budget in the future, such as inflation, new or pending legislation, employment issues, economy.

Where large sums of money are concerned, it is advisable to trust nobody. Agatha Christie

The Budget – A Craft

- Budgeting is an error-prone activity
- Good budget preparers learn from mistakes and try to correct the assumptions found to be in error
- Some errors are unavoidable
- A budget is a set of estimates, estimates based on anticipated behavior of revenue and expenditures
- Some of these estimates will be wrong

People who fight fire with fire usually end up with ashes.

The Budget – A Craft

- To mitigate errors a strong budget office will devote considerable time and effort to quality control.
- An internal review process will catch most errors before they appear in the final product
- Even in small offices it is wise to ask a second person to review the work
- Ask the preparer and reviewer to sign the document stating that they have reviewed it. This simple step will make the staff stop and think before they put their name to the product.

The Budget – A Craft

- Sometimes overlooked is the eventual “consumers” of the budget
- The “consumers” will be city/county government heads, council, media, public
- Helps to use charts, graphs, and well-designed tables, but most of all clear writing
- In fact, one of the criteria for the GFOA Distinguished Budget Award is the budget as a communication device.

*GFOA Criteria for Budget Presentation

Careful grooming may take 20 years off a woman's age, but you can't fool a long flight of stairs.

Marlene Dietrich

- The budget as a policy document
- The budget as a financial plan
- The budget as an operations guide
- The budget as a communications device

*Government Finance Officer's Association

The Budget – Legal Requirements

- S.C. Code of Laws provides the legal framework in which all local gov entities in the state conduct their budgetary processes.
- Legislation found in Section 4 of the General Statutes
- Establishes provision that the chief executive is to prepare and then to submit to Council the operating and capital budget proposal.
- Section 4 dictates that before adoption of the budget, a public hearing must be held.
- Prescribes that by July 1 of each year a budget must be adopted for the upcoming fiscal year.

Women and elephants never
forget. Dorothy Parker

The Budget Process – Legal Requirements

SECTION 4-9-140. Designation of fiscal and budget years; annual fiscal reports; adoption of budgets; levying and collection of taxes; supplemental appropriations; obtaining reports, estimates, and statistics. [SC ST SEC 4-9-140]

The fiscal year of the county government shall begin on the first day of July of each year and shall end on the thirtieth day of June next following, and the fiscal year shall constitute the budget year of the county government. All county offices, departments, boards, commissions or institutions receiving county funds shall make a full, detailed annual fiscal report to the county council at the end of the fiscal year.

County council shall adopt annually and prior to the beginning of the fiscal year operating and capital budgets for the operation of county government and shall in such budgets identify the sources of anticipated revenue including taxes necessary to meet the financial requirements of the budgets adopted. Council shall further provide for the levy and collection of taxes necessary to meet all budget requirements except as provided for by other revenue sources.

Council may make supplemental appropriations which shall specify the source of funds for such appropriations. The procedure for approval of supplemental appropriations shall be the same as that prescribed for enactment of ordinances.

For the purposes of this section a supplemental appropriation shall be defined as an appropriation of additional funds which have come available during the fiscal year and which have not been previously obligated by the current operating or capital budget. The provisions of this section shall not be construed to prohibit the transfer of funds appropriated in the annual budget for purposes other than as specified in such annual budget when such transfers are approved by the council.

In the preparation of annual budgets or supplemental appropriations, council may require such reports, estimates and statistics from any county agency or department as may be necessary to perform its duties as the responsible fiscal body of the county.



The Budget – Legal Authority

- South Carolina Code of Laws 4-9-140 states that “County Council shall adopt annually and prior to the beginning of the fiscal year operating and capital budget for the operation of county government and shall in such budgets identify the sources of anticipated revenue including taxes necessary to meet the financial requirements of the budgets adopted.”
- “Council shall further provide for the levy and collection of taxes necessary to meet all budget requirements except as provided for by other revenue sources.”

Sex appeal is 50 percent what you've got, and 50 percent what people think you've got.

The Budget – Balanced?

- A budget is balanced when the sum of estimated revenues and appropriated fund balances is equal to the sum of appropriations.
- I.E. Revenues = Expenditures
- South Carolina Code of Laws does not specifically state that each local government shall operate under a balanced budget, however, it is prudent to do so.

The only reason I would take up jogging is so that I could hear heavy breathing again.

Erma Bombeck

Policy Document

- Budget is both a legal and resource-allocation policy document
- Chief Admin Officer prepares, presents, and administers the budget
- Elected Officials focus on policies, especially tax policy, funding priorities, macro problems

Policy Document

- Elected officials devote considerable time and energy in examining budget documents
- Important and inevitable part of the review process
- Excessive review of details sometimes precludes thoughtful study of broader policy issues
- Elected officials should identify 5-10 key issues of major magnitude, and encourage big-picture focus

Communications Guide

- Facilitates public understanding and analysis
- Effectively communicates key economic issues and fiscal policies
- Summaries of key information help the public and the media
- Charts, graphs
- Revenue sources and assumptions explained

Communications Guide

- Don't let the detail prevent the budget from communicating effectively
- Concise summaries and key information help the public and the media
- Charts and graphs
- Budget message
- Publish online to enhance transparency and access

Public Involvement

- Provide opportunities for public input at the beginning of the process as well as during the governing body's public review and budget adoption
- Public relations can be enhanced
- Citizen and interest-group educational efforts may be necessary to change narrow focus or single issue mentality to bigger picture

Long-term Financial Plan

- Many governments have adopted strategic plans or other forms of long-term planning to complement their annual budget process
- Annual budget is enhanced by references to these longer-term plans and directional path they establish

Long-term Financial Plan

- Includes mission statement or vision
- May also include goals and objectives
- By communicating these, elected officials can provide important insight to constituents, employees, investors, and other interested parties.

Long-term Financial Plan

- Capital improvement planning-a multi year exercise
- Coordinated with the annual budget document
- Connection between the current year's capital spending and the longer-term plan should be explained thoroughly and clearly

Long-term Financial Sustainability

- Both the operating budget and the capital improvement plan should be developed with a clear focus on long-term solvency and sustainability.
- Difficult because government officials are elected for finite terms
- Financial myopia: Political system does not reward long-term improvements, too much emphasis on short-term

Long-term Financial Sustainability

- Inequitable to leave a burden of deferred costs to future generations for the benefit of the present
- Employee retirement and benefit plans should be properly funded
- Long-term costs of retirement benefits should be fully analyzed before improvements are approved
- Elected officials and staff must develop a keen appreciation of how economic cycles impact future revenues and make advance provisions for downturns

Basis of Budgeting

- Must meet GAAP = Generally Accepted Accounting Principles for governmental entities as prescribed by the Governmental Accounting Standards Board (GASB)
- This means that your year-end financial statements, known as the CAFR, or Comprehensive Annual Financial Report, must have:
 1. Entity-wide financial statements prepared on the full accrual basis of accounting, and
 2. Fund financial statements prepared on the modified accrual basis of accounting

If a man does not know what port he is steering for, no wind is favorable to him. Anonymous

Budgetary Basis

Refers to the basis of accounting used to estimate financing sources (revenues) and uses (expenditures) in the budget.

Shoot for the moon. Even if you miss, you'll land among the stars. Anonymous

Budgetary Basis

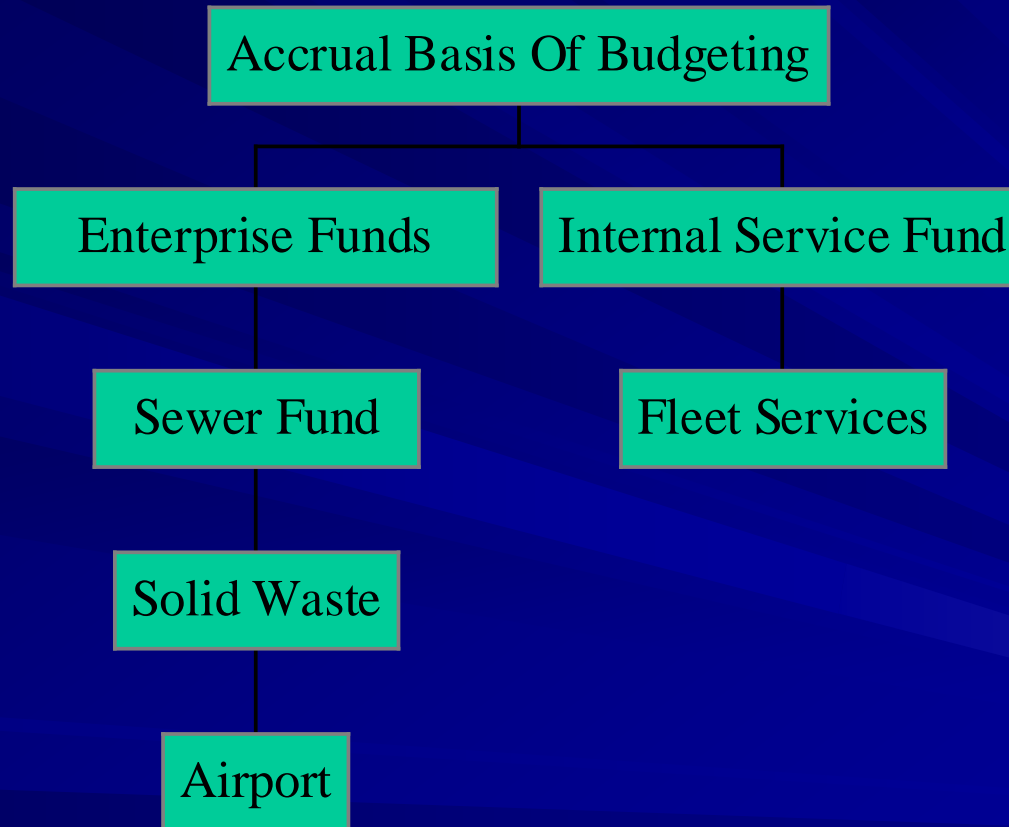
- Cash Basis indicates transactions are recognized only when cash is increased or decreased.
- Accrual Basis indicates revenues are recorded when they are earned (whether or not cash is received at the time) and expenditures are recorded when goods and services are received (whether cash disbursements are made at the time or not).

It's what you learn after you know it
all that counts. John Wooden

Budgetary Basis

- Modified Accrual is the method under which revenues and other financial resources are recognized when they become susceptible to accrual; that is, when they become both “measurable” and “available” to finance expenditures of the current period. “Available” means collectible in the current period or soon enough thereafter to be used to pay the liabilities of the current period.

Budgetary Basis



Basis of Budgeting

- Encumbrance accounting is employed in governmental funds
- Encumbrances include purchase orders, contracts and other commitments
- If an encumbrance is outstanding at the end of the year then they are reported as reservations of fund balances and are not counted as an expenditure or a liability under GAAP
- They are carried forward to the following year and will become part of the subsequent year's budget

A ship in port is safe, but that is not what ships are for. Sail out to sea and do new things.

Grace Hopper

Types of Budgets

- Operating budgets: Describe the expenditures and revenues during a given period for the functioning of the entity
- Capital budgets: Planning for future purchases above a certain cost threshold or life span. Typically accompanied by a Capital Improvement Plan that describes a timeline for acquisition and payment of debt.

Types of Budgets

- Line-Item Budget
- Target Base Budgeting (TBB)
- Performance Budgeting
- Program Budgeting
- Zero Base Budgeting (ZBB)

Diligence is the mother of good
luck. Ben Franklin

Line-Item Budgeting

- Earliest type of budget format to be used in public sector
 - Replaced lump-sum budgeting at the turn of the century
 - Viewed as stable, predictable, and conservative
 - Line-items are the main focus of analysis, authorization, and control
 - Typical line-items are personnel, supplies, travel, contractual services
- At my age happy hour is a nap.

Line-Item Budgeting- Advantages

- Easily understood
- Can be easily increased or decreased, enhancing the opportunity for compromise
- Easy to control with narrow accountability
- Prevents funds from being spent on unauthorized purposes
- Permits hierarchical control before the expenditure is made or obligated
- Provides for uniform and comprehensive control of all financial transactions
- Permits easy compilation of financial data
- The most widely used format

Genius begins great works; labor
alone finishes them. Joseph Joubert

Line-Item Budgeting - Disadvantages

- Merits of the program are often overlooked when making line-item budget reductions
- Difficult to determine what a line-item budget will accomplish
- Focus is on the “things” or commodities that are to be purchased, rather than on the type, or quality of services to be produced
- Difficult to evaluate the efficiency and effectiveness of an agency's activities
- Although it facilitates compromise, it promotes poor decision-making
- Incrementalism

No bird soars too high, if he soars
with his own wings. William Blake

Target Base Budgeting (TBB)

- Establishes a departmental or responsibility center spending ceiling
- Within prescribed limits, some shifting among expenditures is permitted
- Ceiling is usually set on the basis of projected revenue estimates
- TBB are prepared in two parts
- First part includes the funded service that is included within the “target”
- Second part contains a prioritized list of unfunded service items
- During the year, as revenues are either realized, or not realized, the service items are adjusted to reflect the actual funding available

TBB- Advantages

- Because the targets are set at conservative levels, often a pool of resources is left to allow for new or expanded priorities
- Champions fiscal responsibility
- Eliminates deficits, normally generates savings or surpluses
- Budgets can easily be reduced during recessions or increased in prosperity
- Allows for “retargeting” during the year

TBB - Disadvantages

- Since it is revenue driven, it is subject to changes as revenue sources are affected by the economy
- Conservative orientation leads to underestimation of revenues, which could lead to ill-advised decisions, such as staff reductions
- TBB is a stop-and-go resource allocation system, does not look to the future
- Can be counterproductive in growing or stable communities

Performance Budgeting

- Dates to the early 1900's. Popularized and widely practiced throughout 1950's.
- A budget based primarily on measurable performance of activities and work programs
- Requires that standard unit costs be established
- Budget projections are then calculated by multiplying the standard cost by the expected number of work units
- Requires a monitoring system with benchmarks

Performance Budgeting - Advantages

- Focuses on service efficiency
- Intended to help middle-management to monitor performance
- Provide useful information in reviewing operations
- Improves work planning and scheduling

Performance Budgeting - Disadvantages

- Requires a lengthy period of strong leadership
- High cost of implementation
- Staff time intensive in developing, measuring and maintaining unit costs
- Emphasis on the volume of work done as opposed to the quality and effectiveness

Program Budgeting

- Developed in response to dissatisfaction with line-item budgeting and performance budgeting
- Emphasizes results
- Program budget more usable to the administrator than to the accountant
- Encourages identification of program purpose, program development, and commitment to planning
- Is an extension of performance budgeting because it uses measures of output

Program Budgeting

- Programming phase requires the manager to consider whether changes in the agency programs are desired. Decisions must be made to add new programs, eliminate programs, or to modify existing programs.
- Advantages and disadvantages of each decision are defined.
- All costs are related to the goals and objectives in the program structure.
- Normally a five-year program budget is developed.

Program Budgeting- Advantages/Disadvantages

Advantages:

- Links planning, programming and budgeting into an integrated system
- Makes long-range planning and multi-year budgeting routine

Disadvantages:

- Requires massive amounts of data, expertise, and staff time
- Costly to undertake

Zero Base Budgeting

- Became popular in late '60's and in the 70's.
- With ZBB nothing is assumed
- Every function of every department is questioned
- Requires that managers defend every activity under their control
- Mostly viewed as a short-range tool
- Assumes a “clean slate” and estimates all costs associated with activities

Zero Base Budgeting

- At federal level, ZBB was phased out during Reagan administration
- Line-item budget became norm again
- Although ZBB was expected to be innovative, in practice it tends to be status quo and highly political
- ZBB use in government has declined significantly since early to mid 1980's. No longer practiced at federal level.
- Many viewed ZBB as an instrument for quick budget reductions

Budget Reform Stages

Period	Budget Idea	Emphasis
Early 1900's	Line-item budget	Control
1950's	Performance budget	Management Economy & Efficiency
1960's	Planning, Programming, Budgeting System(PPBS)	Planning Evaluation Effectiveness
1970's and 1980's	ZBB, TBB, BBB	Planning, Prioritization, Budget Reduction
1990's	New Performance Budget	Accountability Efficiency and Economy

Budgeting – The Future

- Expect to see more multi-year budgets
- Two year budgets are becoming more acceptable
- Line-item will remain the dominant form
- Line-item will be supplemented by performance measures
- Hybrid budgets will be used combining the best practices of different methods
- Bottom line – use what works for your organization, size of the organization a major factor in choosing budget format