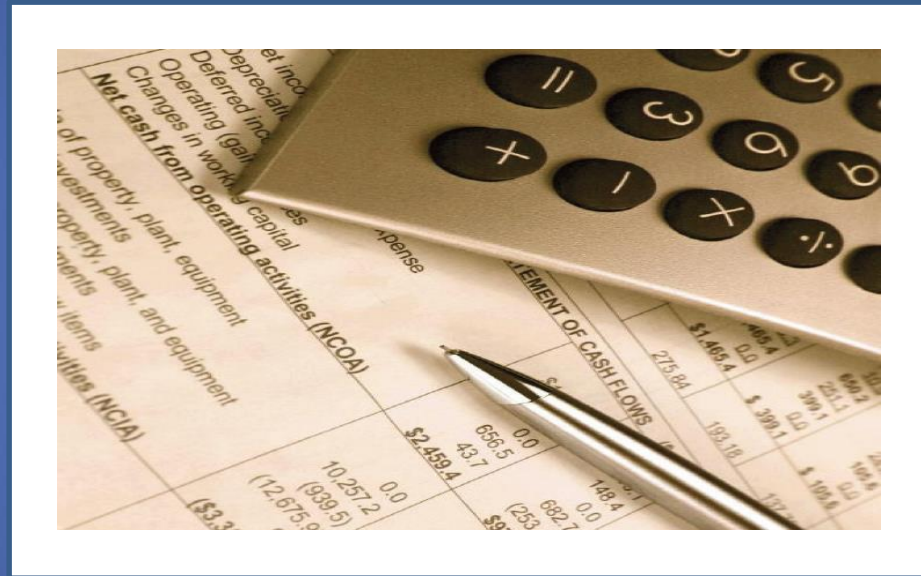


# 2015 Municipal Budgets: Overcoming the Challenges



THE VOICE OF LOCAL GOVERNMENT™

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January 10, 2015  
Crowne Plaza

# Speakers:



## **Glenn Klocko, Comptroller, City of Bristol**

Glenn Klocko has been the Comptroller for the City of Bristol for the past 15 years. Prior to his service in Bristol, Glenn was the first Director of Finance for the Town of Avon. He was a part of the management team that received the first Hartford County municipality Triple A upgrade from the rating agencies in over 20 years (for the Town of Avon).

Glenn has a Bachelor's degree in Accounting from Central CT State University and a Masters in Public Administration from the University of Hartford. Glenn received his Certified Public Finance Officer designation from the GFOA, graduating in the first class of CPFO's. Glenn also served as president of the Government Finance Officers Association of Connecticut (1994 – 1995). Glenn was the Chairman of the Town of Southington's Board of Finance for three years, while serving ten years on the Board. He has taught Governmental Financial Administration at the University of Connecticut graduate level.

## **Brandon Robertson, Town Manager, Avon**

Brandon Robertson has been the Town Manager of Avon for four years. Prior to his appointment in Avon, Brandon was employed by the Town of Simsbury, most recently as the Director of Administrative Services. Prior to working for Simsbury, Mr. Robertson was the Assistant to the Town Manager in Tolland.

Brandon earned both his BA in political science and his master in public affairs degrees from the University of Connecticut. Brandon is a past Vice President of the Connecticut Town and City Management Association. He is also a member of the International City/County Management Association. He serves as the Chairperson of the Investment Committee of the Connecticut Interlocal Risk Management Association.

# Klocko's Tips



***Klocko's Tips*** are interspersed throughout his presentation and offer his personal and well tested remedies and advice on unique and or troublesome issues and often misunderstood aspects of our financial discussion.

# Municipal Budgeting- The Context



- Impact of Economic Environment

Slow or no grand list growth

Reduced tax revenue

Reduced non-tax revenue

Potential increase in required services

Public ability/willingness to pay

# Municipal Budgeting- The Context (cont.)



- Today's budget environment presents a significant challenge.
- Many communities are facing stagnant/declining grand list growth and declining non tax revenues.
- These economic factors are combined with an ever increasing demand for services and the ability/willingness of the public to support continued tax increases.
- A very challenging situation is the result.
- In this environment of heightened public scrutiny and economic scarcity, the keys to success are strong financial management and thoughtful and responsible budgeting.



# Municipal Budgeting Management

- Budget Process
- Phases of Budget

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January 10, 2015

2015 Municipal Budgets

# Municipal Budgeting Management



The budget *process* includes:

- Preparation
- Review
- Revision
- Adoption
- Implementation
- Evaluation (Audit)

## **Phases of budget cycle**

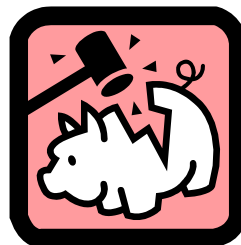
1. Preparation of requests
2. Legislative adoption
3. Implementation
4. Evaluation

## **End product of each phase**

Proposed budget  
Legal Appropriations  
Revenues, expenditures occur  
Audit report: Surplus v. deficit

# Budgeting:

## Tools, Terms & Tips





# Tools



- Documents and Reference Materials:
- Official Statement
- Budgets (current and prior)
- Audit Report, Management letters
- CAFR (Comprehensive Annual Financial Report)
- Rating Agencies market reports
- An Elected Official's Guide Series
- Robert's Rules

# Websites



- [gfoa.org](http://gfoa.org)
- [gfoa-ct.org](http://gfoa-ct.org)
- [ccm.org](http://ccm.org)
- [icma.org](http://icma.org),
- [ct.gov](http://ct.gov) (fiscal indicators)
- [cbia.com](http://cbia.com)
- [neepecon.org](http://neepecon.org)
- rating agencies
  - ([moody.com](http://moody.com), [standardandpoors.com](http://standardandpoors.com), [fitchratings.com](http://fitchratings.com))
- [CBIA.com](http://CBIA.com)
- [NEEPECON.org](http://NEEPECON.org)

# Terms



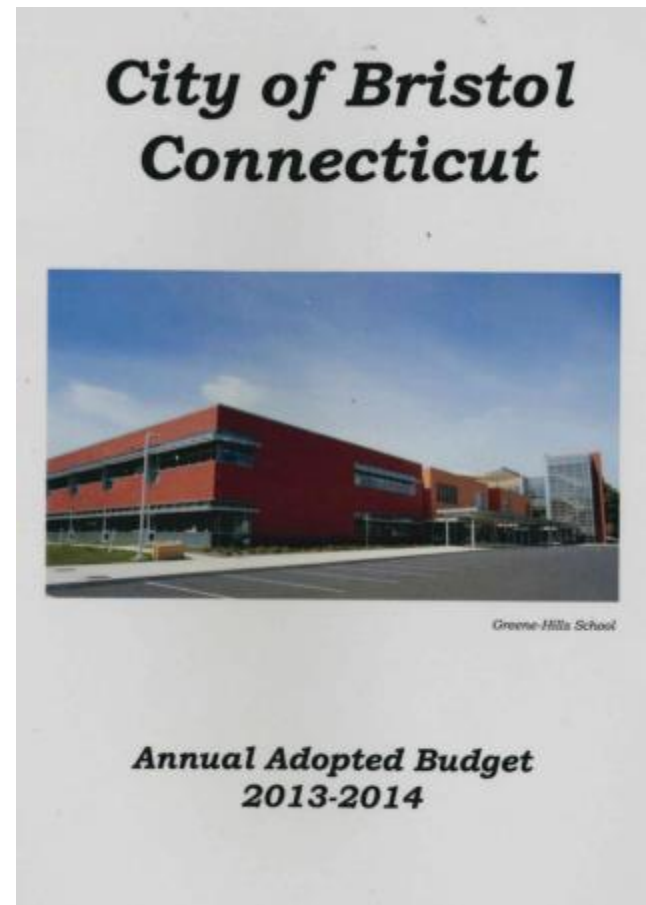
- Fund Balance - Unassigned
- Surplus
- Cyclical
- Fund balance
- Tax levy
- Assessor
- GASB/OPEB
- Budget Variances (Budget to Actual: RSI 1&2)
- Capital Budget
- Mill Rate
- Budgetary basis
- Financial Position
- Deficit
- Structural
- Contingency
- Grand List
- Tax Collector
- Encumbrances
- Capital Improvement Plan
- Transfers
- G.A.A.P. Basis
- Financial Condition

# Klocko's Tips



*Oh by the way, pronunciation is important; It's Fiscal not Physical; and it's Gazz-Bee not Gatsby).*

# The Modern Budget of Today



# Question:

**Who are the potential users of the  
Budget document?**

# Budget Has 4 Uses...



- Policy Document
- Financial Plan
- Operations Guide
- Communications Device



# Using the Budget Document: Policy Document



# Budget as a Policy Document



One stop shopping for the following Management Policies:

- Statement of coherent entity- wide financial policies
- Stated fiscal and long-term goals and objectives

Actual written policies;

- Debt Policy
- Fund Balance Policy
- 10 Year CIP
- Revenue Policies- Such as a policy for One-time revenues
- Investment Policy
- Unassigned fund balance as % of operating budget (policy/goal)



# Using the Budget Document: Financial Plan

# Budget as a Financial Plan



It's not just numbers; a budget should describe the following:

- All Town Funds (which are budgeted & which are not)
- Methods used to estimate fund revenues
  - Trend analysis information for revenues & expenditures
- Projected changes in fund balances by fund
- Describe current debt outstanding, debt limits, & debt policy
- Principal and Interest payment schedule to maturity

# Using the Budget Document:

## Operations Guide

# Budget as an Operations Guide



Approve a budget for the year, shelf it and be done with it until next year? No Way!

- Description of services carried out by Organizational Units
- Performance data - Provides measure of progress by departments
- Organizational chart
- Personnel or position counts included for prior & current budget

# Using the Budget Document:

## Communications Device

# Budget as a Communications Device



Your budget is not just for your community leaders; others read and want it. Remember there are other potential users?

- Your budget communicates:

- A budget in Brief:

The Budget Message articulates priorities and issues, such as significant budgetary changes on year to the next and factors causing the changes.

Examples: Economic Factors (Economic Forecast)

Regulator (mandate costs)

Legislative (state budget delays)

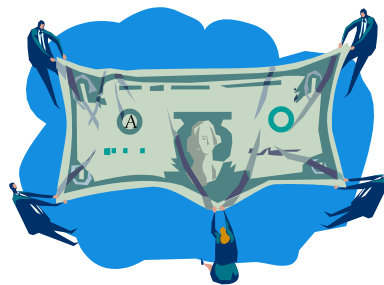
# Budget as a Communications Device (cont.)



- Describes the process for preparing, reviewing, and adopting budget along with procedures to amend the budget after adoption
- Includes a Budget Calendar
- Has Charts and graphs with narrative interpretation.
- Contains: Table of contents, a glossary, and acronyms or abbreviations are all defined
- Statistical information is provided for comparative purposes
- The Budget Document itself is produced and formatted in such a way as to enhance its understanding by the average reader
- And, it should be attractive, consistent, and oriented to the reader's needs



# Let's Take Sides



# Klocko's Tips



*Formulate and review the revenue budget first, and always use prudent estimates.*

***Why?***

- This approach provides a SUPERIOR basis for budgeting expenditures to an equal level of revenues, which keeps the budget in balance and in perspective.
- In addition, policy makers tend to overlook or place an ‘after thought’ approach on revenue estimates...a potentially large budgeting mistake.
- Think of it like shopping without knowing how much money you have in your wallet. Prepare and review your Revenue Budget first, then your Expenditure Budget. Period. Next.

# Revenue Sources



- Taxes
- Licenses and Permits
- Intergovernmental (grants)
- Charges for services
- Interest income
- Miscellaneous – i.e. sale of fixed assets
- Other: Use of Fund Balance

# Revenue Sources



	<b>FY 2012 <u>Actual</u></b>	<b>FY 2013 <u>Estimated</u></b>	<b>FY 2014 <u>Approved</u></b>
<b><u>SOURCES:</u></b>			
Taxes, Prior Levies, Assessments	\$116,768,398	\$124,341,245	\$125,257,325
Interest & Liens on Delinquent Taxes	749,796	918,192	500,000
Licenses, Permits + Fees	1,561,902	880,988	732,450
Intergovernmental	55,646,997	53,225,609	47,948,275
Charges for Services	3,342,260	3,050,419	2,808,345
Investment Earnings	175,534	203,119	180,000
Sale of Property and Equipment	180,879	172,176	77,400
Miscellaneous	729,381	801,363	394,230
Fund Balances	0	0	495,000
Sources of Funds	\$179,155,147	\$183,593,111	\$178,393,025
Interfund Transfers	(33,881,125)	(41,764,453)	(36,387,056)
Reserves	0	0	0
<b>Appropriated Sources of Funds</b>	<b>145,274,022</b>	<b>141,828,658</b>	<b>142,005,969</b>

# Resources



Obtain a copy of the following:

State of Connecticut Estimates of State Formula Aid to Municipalities, Office of Policy and Management

[http://www.ct.gov/opm/lib/opm/igp/estimat/estimates\\_book.pdf](http://www.ct.gov/opm/lib/opm/igp/estimat/estimates_book.pdf)

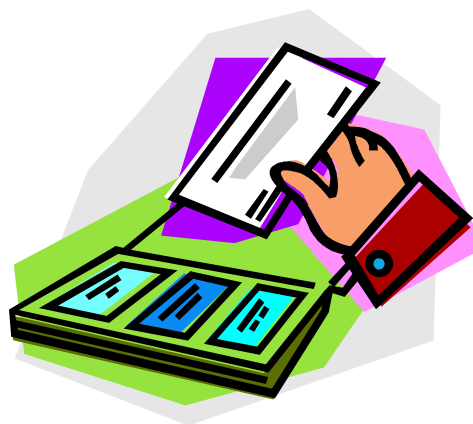
State of Connecticut Municipal Fiscal Indicators

# Klocko's Tips



- Read the first few pages in detail
- You will find useful information in these two documents provided to you free of charge by the state
- Also, use the Fiscal Indicators Report to compare your community information to other communities of equal credit ratings. (AAA, AA3, A1, BAA)

# Expenditures





# Expenditures



**The best key to expenditure approval is rational thoughtful planning:**

1. Balance demands (expenditures) with resources (revenues)
2. Remember:  
Revenue budget prep and review first, then expenditures.
3. Set parameters or guidelines for spending, and
4. Establish a threshold & priority system for capital requests.
5. Do the priority system in good times and bad.

# Klocko's Tips



- Question your revenue fee structure at least once every other year
- Discuss your monthly “budget to actual” reports
- Know *when* and *how* to Use Fund Balance. (more on this later)

# Expenditures (cont.)



- Think about how the expenditure budget can be managed throughout the year, not just during the budget season! Think about expenditures in the following broad areas:
- Personal Services (e.g. salaries and benefits)
- Services and Supplies
- Capital Outlay
- Suggestions to control costs in these areas are included in this power point presentation. Remember, plan ahead. This implementation of many of these tools requires planning and a long lead time to realize savings.

# Expenditure Classification



## 0012110 POLICE DEPARTMENT ADMINISTRATION

OBJECT	PROJECT	DESCRIPTION	PRIOR YEAR ACTUAL 2011-2012	ORIGINAL BUDGET 2012-2013	REVISED BUDGET 2012-2013	BUDGET REQUEST 2013-2014	JOINT BOARD 2013-2014
<b>SALARIES</b>							
514000		REGULAR WAGES & SALARIES	\$510,314	\$557,570	\$563,655	\$552,375	\$552,375
515100		OVERTIME	4,505	5,530	5,530	5,530	5,530
517000		OTHER WAGES	3,906	7,700	7,700	6,000	6,000
<b>TOTAL SALARIES</b>			<b>\$518,725</b>	<b>\$570,800</b>	<b>\$576,885</b>	<b>\$563,905</b>	<b>\$563,905</b>
<b>CONTRACTUAL SERVICES</b>							
522100		CLOTHING ALLOWANCE- LOCAL 754	\$135,735	\$134,915	\$134,915	\$135,178	\$135,180
522300		UNION CONTRACT RESPONSIBILITY	0	200	200	200	200
531000		PROFESSIONAL FEES AND SERVICES	32,786	42,325	42,325	32,033	32,035
531050		TEST FEES	0	1,750	1,750	1,750	1,750
541000		PUBLIC UTILITIES	25,962	28,000	28,000	28,000	28,000
541000	12931	PUBLIC UTILITIES	2,154	0	0	0	0
542140		REFUSE	0	0	0	750	750
543000		REPAIRS AND MAINTENANCE	20,257	17,215	17,215	22,646	22,645
544400		RENTS & LEASES	3,327	9,200	9,200	10,200	10,200
553000		TELEPHONE	23,651	26,500	26,500	26,500	26,500
553100		POSTAGE	2,442	4,200	4,200	3,500	3,500
554000		TRAVEL REIMBURSEMENT	0	100	100	50	50
555000		PRINTING AND BINDING	4,837	3,000	3,000	7,700	7,700
562300		GENERATOR FUEL	0	2,000	2,000	0	0
581120		CONFERENCES AND MEMBERSHIPS	2,650	2,930	2,930	2,820	2,820
581135		SCHOOL AND EDUCATION	34,440	54,000	54,000	52,000	52,000
<b>TOTAL CONTRACTUAL SERVICES</b>			<b>\$288,241</b>	<b>\$326,335</b>	<b>\$326,335</b>	<b>\$323,327</b>	<b>\$323,330</b>

# Tools to Control Spending



## Personal Services (Benefits and Wages)

### Health Insurance

- Aggressively negotiate insurance renewal
- Wellness program?
- Plan design changes
- Premium cost sharing
- Audit health insurance census
- Cash opt out program?

# Tools to Control Spending



## Personal Services (Benefits and Wages)

### Pension

- Defined Benefit v. Defined Contribution
- Always fund the “Annual Required Contribution” ARC
- Talk with your actuaries

### Wages

- Hiring deferrals/freezes
- Furloughs/reduction in hours
- Early retirement incentives
- Concessions

# Tools to Control Spending



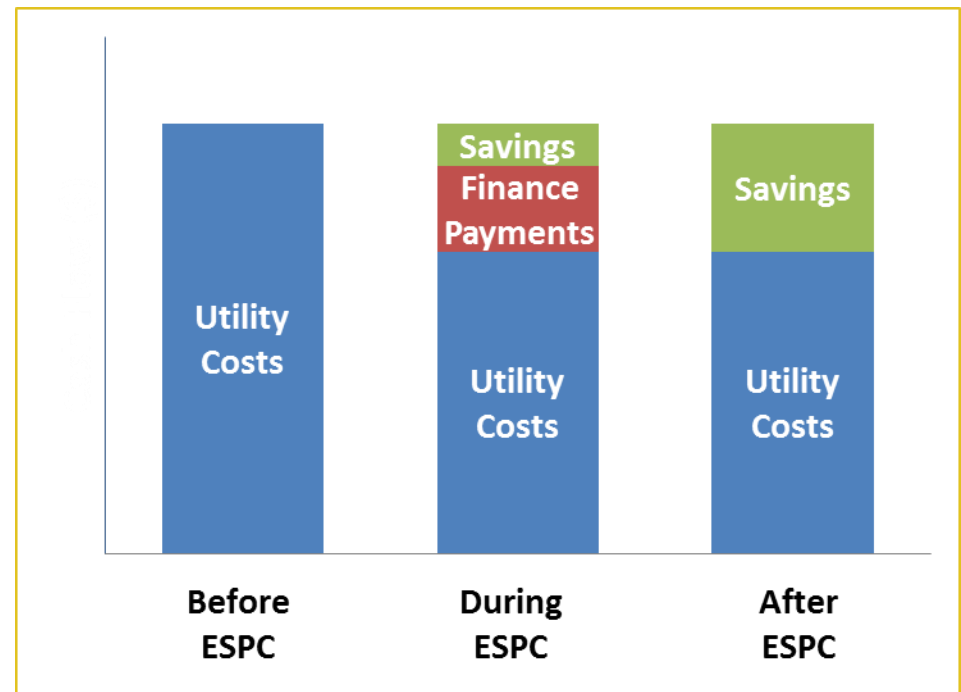
## Services and Supplies/Miscellaneous

- Appropriately charging costs to user supported special revenue funds
- Renegotiate vendor/professional service agreements
- Lease/Purchase Capital
- Mid-Year Rescissions
- Refinance Long Term Debt
- Competitively bid electricity purchase
- Regional Cooperation?
- Intra/Local Cooperation-Combined Services/Purchasing with the Board of Education
- Purchasing Consortia (RPO, CCM, DAS)

# Energy Savings Performance Contracts



- Installed energy savings measures are paid for over time by reduced operating costs
- The energy savings are guaranteed by the Energy Service Company (ESCO) that installs the Energy Savings Measures





# Energy Savings Performance Contracts



- Matt Cohen                      DEEP                      [matthew.cohen@ct.gov](mailto:matthew.cohen@ct.gov)
- Andy Brydges                      CEFIA                      [Andrew.brydges@ctcleanenergy.com](mailto:Andrew.brydges@ctcleanenergy.com)



# Municipal Budget Management

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2015 Municipal Budgets

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# Klocko's Tips



*The best budget documents tell the story behind the numbers*

# Recommended Budget Practices



The best budget documents also have:

- a) Synopsis of budget decisions
- b) Factors leading to them
- c) Implications for programs and services
- d) Spells out short and long-term goals and priorities
- e) Disclose any and all assumptions

# Important!



Relate the past to the current and future by highlighting historical significance of prior year's plans to current and future plans. This provides a bridge between budget years.

# 12 Habits of Highly Successful Elected Officials



- Fund balance reserve policy/working capital reserves
- Multiyear financial forecasting
- Monthly or quarterly financial reporting & monitoring
- Contingency planning policies and practices
- Policies regarding non-recurring revenue (review/update all policies)
- Debt affordability reviews and policies and practices
- Superior debt disclosure practices
- Pay-as-you-go capital funding policies and practices
- Rapid debt retirement policies (greater than 65% in 10 years); Compare ratio to other municipalities.
- Ten-year capital improvement plan; integrating operating
- Government Finance Officers Association (GFOA): Financial reporting and budgeting awards
- Compliance with Governmental Accounting Standards Board (GASB 45- OPEB)



# 12 Worst Financial Management Practices for Elected Officials



- Lack of willingness to pay obligations (OPEB, ARC, Liabilities)
- Qualified audit opinion of material weakness
- Operating deficit for two of past five years
- Slow debt retirement (less than 35% in 10 years)
- Unfunded accrued pension liability (funding ratio less than 60%)
- Debt restructuring that defers more than 35% of current debt service (back loading versus level debt service of front loading)
- Over reliance on nonrecurring revenue (for more than 15% of recurring expenses)
- Structural Imbalance
- Aggressive investment policy for operating funds (S.L.Y.)
- Pension contribution deferrals
- Lack of capital improvement plan
- Excess interfund borrowing with no capacity to repay in near future



# Signs of Fiscal Stress

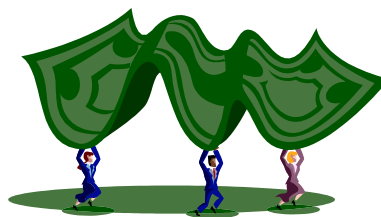


# Signs of Fiscal Stress



- Multiple years operating losses (deficits).
- Reliance on Transfers from other funds other than Sinking Funds.
- Pension contribution deferrals
- No GASB 45/OPEB Plan:  
*(Doing Nothing results in...**Bad Things Will Happen!**)*
- Lack of competent and consistent management in place

# Successful Financial Strategies



# Successful Financial Strategies



- Increase and document your established rainy day reserve.
- Know where Undesignated/Unassigned Fund Balance is in the Audit Report and protect its use.
- Use it only for only two reasons:
  - I. one-time opportunities, or II. emergencies
- Identify revenue shortfalls early and adjust for them. Same thing for expenditures overages.
- Prioritize spending plans, build contingencies in operating budgets
- Formalize 10 CIP; require quarterly updates of existing plan projects.
- Establish a financing plan: for long term liabilities, GASB 45, Heart & Hypertension, Compensated Absences, lawsuits, OPEB
- Establish some pay-as- you-go (paygo) financing for capital items
- Establish management information systems replacement program rollover (lease don't buy).

# Break Time!



# Financial Reporting



## Governmental Funds

- **General Fund**
- **Capital Projects**
- **Special Revenue**
- **Debt Service**
- **Permanent**

# Governmental Funds



Focus is short term

Basis of accounting is modified accrual

## General Fund

- Largest 'catch all' fund
- One year life, thus the term: a fiscal year.
- Year end is either a Surplus or a deficit. Where is it located?
- Only fund that generates a Mill rate (taxes!); Gross levy/grand list



# Capital Projects



- Small number of large purchases/projects with thresholds.
- Financing: general fund line item, debt service, or grants.
- Separate budget; ideally should follow general fund budget process.
- Capital Improvement Plan versus Capital budget
- Multi-year life, project length schedule in audit report.
- Capital budgets produce no revenue to support expenditures.
- Their sources of funding are: grants, cash, debt issuance, combination.
- Balance Sheet and Statement of Changes in Fund Balance
- Project length schedule. (Go over this yearly and close dormant projects).

# Special Revenue



- Legally required or desired by management
- Fiscal Year life

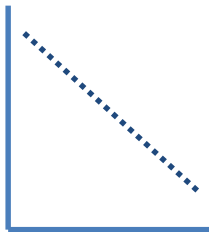
# Debt Service



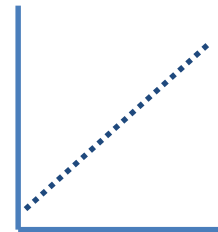
- Payment of Long Term Debt
- Debt Structure (bond years)



Level



Front-Loaded



Back-Loaded

# Permanent

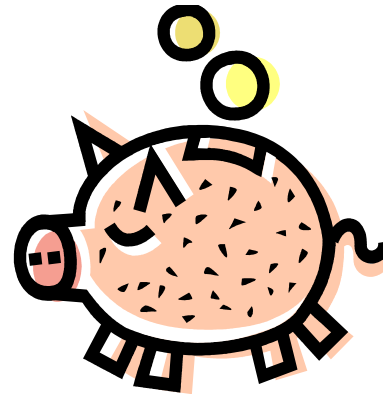


- Legally Restricted

# Proprietary Funds



- Enterprise
- Internal Service



# Proprietary Funds



## *Enterprise*

**Operates like a business, flexible budget plan (water, electric and sewer).**

## *Internal Service*

**Financing of goods or services provided by one department to other departments.**

# Proprietary Fund: Water Dept.



	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 1,272	\$ 1,250
Investments	4,163	3,659
Receivables, net	1,327	1,256
Inventories	215	251
Other assets		52
Total current assets	<u>6,977</u>	<u>6,468</u>
Noncurrent assets:		
Deferred debits	22	26
Capital assets:		
Assets not being depreciated	2,717	2,754
Assets being depreciated, net	21,428	21,940
Total noncurrent assets	<u>24,167</u>	<u>24,720</u>
Total Assets	<u>31,144</u>	<u>31,188</u>

# Fiduciary Funds



- **Pension Trust**
- **Agency**





# Fiduciary Funds



## *Pension Trust*

**Accounts for employee retirement system. Expenditure covenants on either principal, interest, or both.**

## *Agency*

**Custodial in nature. Its assets are due to some other entity. No fund balance.**

# Exhibit VIII



	<b>Pension Trust Funds</b>	<b>OPEB Trust Fund</b>	<b>Agency Funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 128	\$ 412	\$ 518
Investments, at fair value:			
Certificates of deposit			156
Corporate bonds	74,248		
U.S. treasury	50,006		
U.S. government agencies	13,655		
Securitized instruments	13,404		
Common stock	331,848		
Mutual funds	70,853	3,035	
Total investments	<u>554,014</u>	<u>3,035</u>	<u>156</u>
Total assets	<u>554,142</u>	<u>3,447</u>	<u>\$ 674</u>
<b>Liabilities:</b>			
Due to senior citizens			\$ 12
Due to student groups			662
Due to other funds	994		
Total liabilities	<u>994</u>	<u>-</u>	<u>\$ 674</u>
<b>Net Position:</b>			
Held in Trust for Pension Benefits	552,348		
Held in Trust for OPEB Benefits	800	3,447	
Total Net Position	<u>\$ 553,148</u>	<u>\$ 3,447</u>	



## Schedule of Funding Progress

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Funded (Unfunded) AAL (UAAL) (a-b)</b>	<b>Percentage Funded (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((a-b)/c)</b>
7/1/08	\$ -	\$ 72,000	\$ (72,000)	0.0%	\$ 70,000	(102.9)%
7/1/10	-	64,510	(64,510)	0.0	91,807	(70.3)
7/1/12	1,847	75,052	(73,205)	2.0	88,563	(82.7)

**Firefighters' Benefit Fund**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (a-b)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((a-b)/c)</b>
7/1/07	\$ 142,188	\$ 60,481	\$ 81,707	235.1%	\$ 5,184	1,576.1%
7/1/08	155,198	61,374	93,824	252.9	5,219	1,797.6
7/1/09	155,135	61,873	93,262	250.7	5,298	1,760.4
7/1/10	157,354	62,506	94,848	251.7	5,275	1,798.1
7/1/11	159,247	66,073	93,174	241.0	5,454	1,708.2
7/1/12	160,794	65,874	94,920	244.1	5,521	1,719.2

**Police Benefit Fund**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Projected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (a-b)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((a-b)/c)</b>
7/1/07	\$ 156,222	\$ 76,105	\$ 80,117	205.3%	\$ 7,502	1,067.9%
7/1/08	170,638	77,990	92,648	218.8	7,421	1,248.5
7/1/09	170,404	83,227	87,177	204.7	8,245	1,057.3
7/1/10	172,814	86,099	86,715	200.7	8,377	1,035.1
7/1/11	175,219	91,283	83,936	192.0	8,295	1,011.9
7/1/12	176,389	95,527	80,862	184.6	7,838	1,031.7

# Klocko's Tips

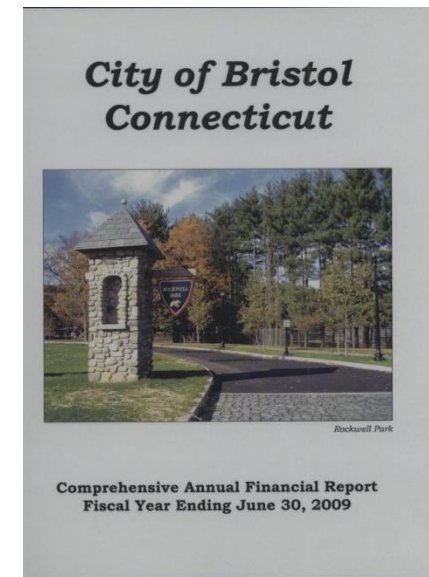


*A Cardinal Rule applies here! Vote to fully budget any and all actuarial liability (ARC: annual required contribution). Next, show and tell your employee's these numbers so they fully understand the financial value/cost of their benefits. Fully funded?*

# Financial Reports



- Audit Report
- CAFR
- Official Statement
- Monthly Status Reports
- Actuarial Report



# Audit Report: Audit Opinion



## Basic Financial Statements or Notes to Financial Statement

Single & Federal Audits- may be a separate  
document

# Independent Auditors' Report

To the Members of the Board of Finance  
City of Bristol, Connecticut



## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Bristol, Connecticut, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Bristol, Connecticut's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the

**BlumShapiro**

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# Comprehensive Annual Financial Report (CAFR)



This financial report incorporates the ‘audit report’ within it, but a CAFR is more detailed and meaningful to the reader.

# CAFR Sections



## **Introductory**

Table of contents, letter from finance official listing of officials

## **Financial**

MD&A, Financial statements and notes to the financials

## **Statistical**

Ten year trends and demographics. Like the Distinguished Budget Award program, there is a GFOA CAFR Award Program as well.

At this point, you should be becoming comfortable with your understanding of the information inside the reports, and of course your knowledge becomes financial power, right?

## **Important:**

At a minimum, read the notes to the financial statements. They contain loads of useful information that will answer many of your questions right upfront.

# Klocko's Tips



*It's helpful to know the difference between an Audit Report and a CAFR.*

# No CAFR?



If your community does not prepare a CAFR, ask why not and when will we?

(It's a recommended practice in the governmental financial community.)

Hire auditors with proven CAFR auditing experience. Once again, Moody's loves this stuff.

# Official Statement



Prepared every time you issue Bonds.

It's half CAFR half audit report with a lot of “we are better than sliced bread” opinions.

# Official Statement



**Final Official Statement Dated February 4, 2009**

**New Money Issue: Book-Entry-Only**

**BOND/NOTE RATINGS: Moody's Investors Service: Aa3  
Standard & Poor's Corporation: AA+/SP-1+  
Fitch Ratings: AA/F1+**

*In the opinion of Bond Counsel, assuming the accuracy of and compliance by the City with its representations and covenants, relating to certain requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), under existing statutes, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; the Bonds are not "private activity bonds" and interest on the Bonds is not treated as a preference item for purposes of calculating the Federal alternative minimum tax, but in the case of corporations a portion of such interest may be included in alternative minimum taxable income for purposes of computing any Federal alternative minimum tax; interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax. See Appendix B - "Opinions of Bond Counsel and Tax Exemption" herein.*

*In the opinion of Bond Counsel, under existing statutes and regulations, interest on the Bonds is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended. In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; interest on the Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.*



**\$8,900,000**  
**City of Bristol, Connecticut**  
**Tax-Exempt General Obligation Bonds, Issue of 2009**  
**Book-Entry-Only**

**Dated: February 15, 2009**

**Due: Serially on February 15,  
as detailed inside this front cover**

The Bonds will bear interest payable semiannually on February 15 and August 15 in each year until maturity, commencing August 15, 2009. The Bonds are issuable only as fully registered bonds, without coupons, and, when issued, will be registered in the name of Cede & Co., as bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "Book-Entry-Only System" herein.

The Bonds are subject to redemption prior to maturity, as more fully described herein.

**CCM MUNICIPAL TRAINING**

# Official Statement (cont.)



## *EASTERN BANK*

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**\$7,410,000**

### ***Taxable General Obligation Bond Anticipation Notes***

**Dated:** February 17, 2009  
**Rate:** 2.50%  
**Underwriter:** Eastern Bank

**Due:** February 16, 2010  
**Yield:** 2.23%  
**CUSIP:** 109853P54

The Notes will be issued in book-entry-only form and will bear interest, at such rate or rates per annum as are specified by the successful bidder or bidders, in accordance with the Notice of Sale, dated January 28, 2009. The Notes, when issued, will be registered in the name of Cede & Co., as Noteowner and nominee for DTC, New York, New York. Purchases of the Bonds will be made in book-entry form, in the denomination of \$25,000 or any integral multiple thereof, plus any odd amount. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "Book-Entry-Only System" herein. See "Book-Entry-Only Transfer System" herein.

The Bonds and the Notes will be general obligations of the City of Bristol, Connecticut and the City will pledge its full faith and credit to pay the principal of and interest on the Bonds and the Notes when due. (See "Security and Remedies" herein.)

The Registrar, Transfer Agent, Paying Agent and Certifying Agent will be U. S. Bank National Association, Goodwin Square, 225 Asylum Street, Hartford, Connecticut 06103.

The Bonds and the Notes are offered for delivery when, as and if issued, subject to the approving opinion of Day Pimey LLP, Bond Counsel, Hartford, Connecticut. It is expected that delivery of the Bonds and the Notes in book-entry-only form will be made through The Depository Trust Company in New York, New York on or about February 17, 2009.



# Fund Balance



*“There is no single number in governmental accounting and financial reporting that attracts more interest and discussion than fund balance”...Stephen J. Gauthier  
(GFOA)*

# Klocko's Tips



*Cut and paste Fund Balance definitions to the inside cover of your next audit report or CAFR.*

# Definitions



- **Assigned Fund Balance:** Amounts that are intended to be used by the government for a specific purpose. Examples: most encumbrances and the portion of Fund Balance appropriated to balance the following year's budget.
- **Restricted Fund Balance:** Amounts constrained for a specific purpose by external parties, such as grantors, contributors, or laws and regulations of their government
- **Committed Fund Balance:** Amounts constrained for a specific purpose determined by the Board of Finance, the highest level of decision-making authority.
- **Unassigned Fund Balance:** Amounts in the General Fund in excess of nonspendable, restricted, committed and assigned Fund Balance.
- **Nonspendable Fund Balance:** Amounts that cannot be spent due to form. Example: prepaid amount such as postage.

# Klocko's Tips



*Learn to find then highlight or circle the General Fund Unassigned Fund Balance in your audit report or CAFR. (Hint: General Fund Balance Sheet)*

*Do the same for all funds, which provides evidence you are on top of your community finances!*

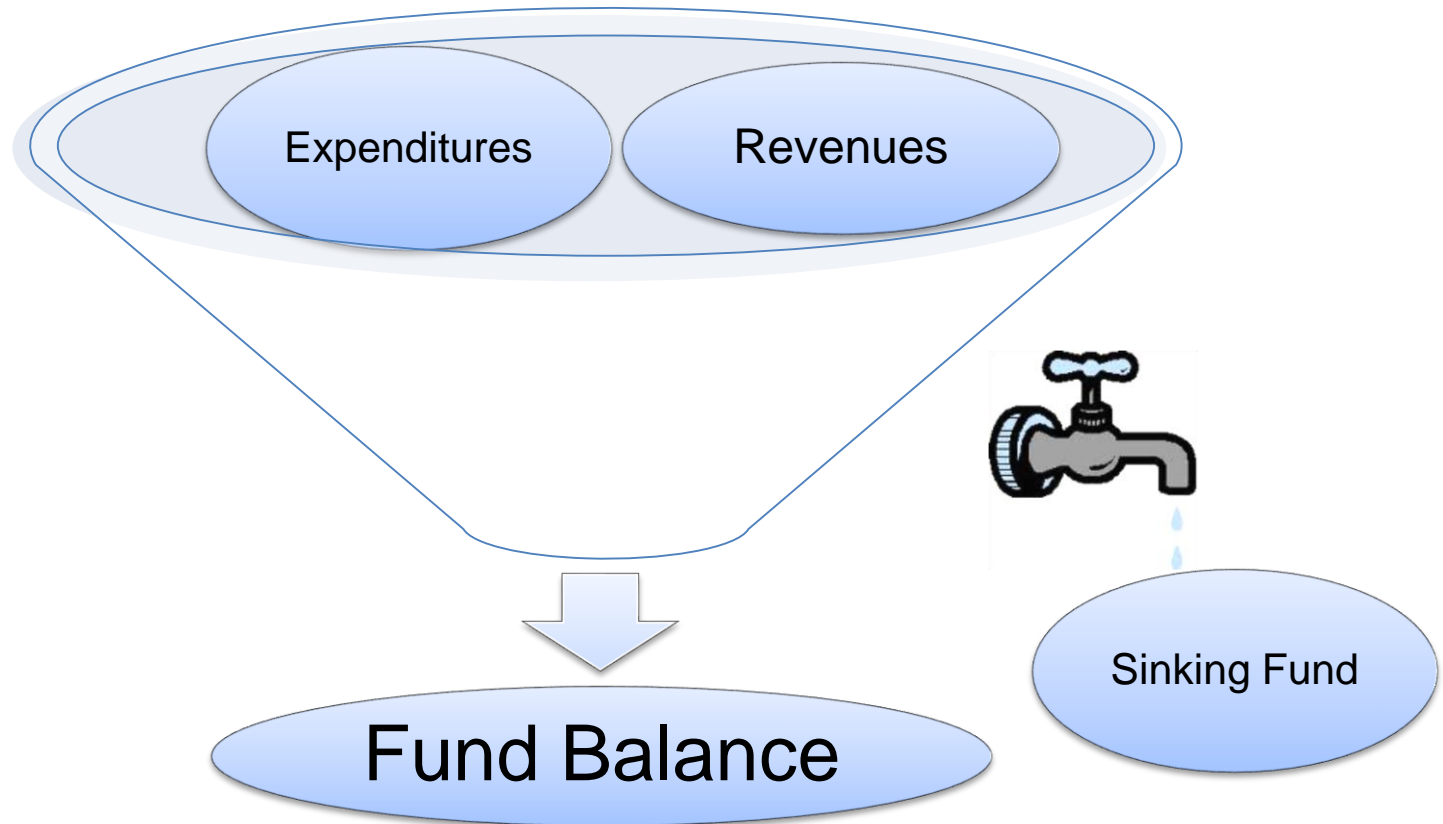
# General Fund Balance Sheet



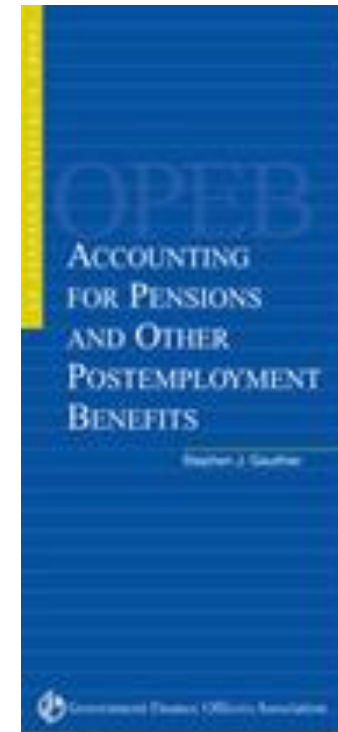
	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 38,886
Investments	
Receivables, net	8,230
Due from other funds	611
Other assets	2
Inventories	
	<u>          </u>
Total Assets	<u>\$ 47,729</u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts and contracts payables	\$ 5,116
Accrued liabilities	9,128
Due to other funds	155
Due to other governments	
Bond anticipation notes payable	
Deferred revenue	3,900
Total liabilities	<u>18,299</u>
Fund balances:	
Nonspendable	2
Restricted	
Committed	3,848
Assigned	1,617
Unassigned	23,963
Total fund balances	<u>29,430</u>
Total Liabilities and Fund Balances	<u>\$ 47,729</u>



# Managing Fund Balance



# Other Recommended Practices





# Other Recommended Practices



- Hire a finance professional to implement, review, and monitor your finances.
- Annually review and update your policies.
- Issue RFP's for your professional consultants periodically.
- Participate in the debt issuance process - understand the players and their roles.
- Once again, build a reference library of materials, contacts, websites, and cheat sheet notes.

Examples: [www.gfoa.org](http://www.gfoa.org), [www.gfoa-ct.org](http://www.gfoa-ct.org), [www.ccm.org](http://www.ccm.org),  
GFOA's: Elected Official's Guide series, The 'Blue Book' by GFOA

# Standard & Poor's New Credit Framework



- The new approach scores seven different areas on a scale of 1 to 5 (1 = strongest; 5 = weakest), which will formulate a weighted average resulting in the indicative rating.

Category	Weight
Institutional Framework	10%
Economy	30%
Management	20%
Liquidity	10%
Budgetary Performance	10%
Budgetary Flexibility	10%
Debt & Contingent Liabilities	10%

# Standard & Poor's New Credit Framework (cont.)



- Each individual category contains numerous qualitative factors that can impact the score positively or negatively
- The resulting indicative rating across all categories may be revised upward or downward, or capped, based on several overriding factors.

# Moody's Investors Service Scorecard Factors & Weights



Broad Rating Factors	Factor Weighting	Rating Subfactors	Subfactor Weighting
Economy/Tax Base	30%	Tax Base Size Full Value Per Capita Wealth (median family income)	10% 10% 10%
Finances	30%	Fund Balance (% of revenues) Fund Balance Trend (5 year change) Cash Balance (% of revenue) Cash Balance Trend (5 year change)	10% 5% 10% 5%
Management	20%	Institutional Framework Operating History	10% 10%
Debt/Pensions	20%	Debt to Full Value Debt to Revenue Moody's-adjusted Net Pension Liability (3 year avg) to Full Value Moody's-adjusted Net Pension Liability (3 year avg) to Revenue	5% 5% 5% 5%

# Moody's Investors Service Scorecard Factors & Weights (cont.)



- The scorecard-indicated rating will not match the actual rating in every case, for a number of reasons including the following:
  - The methodology considers forward-looking elements that may not be captured in historical data
  - The scorecard is a summary that does not include every rating consideration
  - In some circumstances, the importance of one factor may escalate and transcend its prescribed weight in this methodology

# Thank You



## Questions?

# Contacts:



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# CCM - THE STATEWIDE ASSOCIATION OF TOWNS AND CITIES



The Connecticut Conference of Municipalities (CCM) is Connecticut's statewide association of towns and cities. CCM is an inclusionary organization that celebrates the commonalities between, and champions the interests of, urban, suburban and rural communities. CCM represents municipalities at the General Assembly, before the state executive branch and regulatory agencies, and in the courts. CCM provides member towns and cities with a wide array of other services, including management assistance, individualized inquiry service, assistance in municipal labor relations, technical assistance and training, policy development, research and analysis, publications, information programs, and service programs such as workers' compensation and liability-automobile-property insurance, risk management, and energy cost-containment. Federal representation is provided by CCM in conjunction with the National League of Cities. CCM was founded in 1966.

CCM is governed by a Board of Directors, elected by the member municipalities, with due consideration given to geographical representation, municipalities of different sizes, and a balance of political parties. Numerous committees of municipal officials participate in the development of CCM policy and programs. CCM has offices in New Haven (headquarters) and in Hartford.

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**THE VOICE OF LOCAL GOVERNMENT**