

WELCOME TO THE WORLD OF MUNICIPAL FINANCE

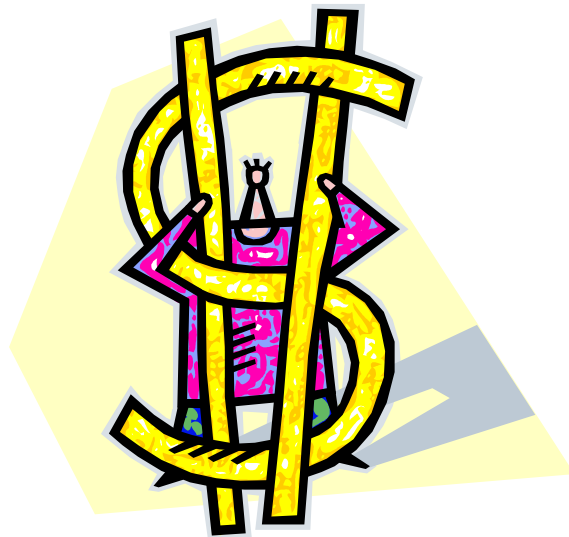
A HANDBOOK FOR MUNICIPAL ELECTED OFFICIALS



WYOMING ASSOCIATION OF MUNICIPALITIES 2011

*It sounds extraordinary but it's a fact that
balance sheets can make fascinating reading.*

—Mary Archer—



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Bobbe Fitzhugh and Joe Coyne, principals - www.consultCBI.com*

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WHY DO MUNICIPALITIES NEED MONEY?

Municipal government exists to provide public services and facilities a community wants and needs. These are services and facilities reasonably provided by a local government rather than by individuals or through the private market. Just as a private corporation must be accountable to its stockholders, municipal corporations are accountable to the voters, residents, and business owners of a community.

Local government services and programs cost money. Suppliers as well as public employees and contractors who work for cities and towns must be paid. Buildings and equipment for conducting public business must be provided. Streets, sewers, parks and other facilities need to be built and maintained.

The funds controlled by a city or town are public funds – they cannot be used for the personal interest of any elected official or public employee, or given to any private interest. The source of these funds and how they are managed and used is of critical importance to any community.

Every city and town must operate with an approved budget – a financial plan that shows how much money will be available, where it comes from and how it will be used. However, there are other basic considerations related to finances that are also important. These include laws, policies and plans about how funds can be generated, and about how they must be handled and accounted for.

WHO IS RESPONSIBLE?

Our system for municipal finance includes shared responsibilities. The public, which benefits from municipal services and facilities, provides the money at the local level through taxes and fees. Only the federal government can provide money by printing it. Local elected officials and staff are responsible for managing and accounting for public funds.

Financial oversight responsibilities of a municipal governing body (mayor and council members) include:

- *Long-term* - setting the mission, goals, and financial policies for the community

- *Annual* - setting budget priorities, establishing salary and benefit levels
- *Periodic* - reviewing contracts, adopting budget amendments
- *Ongoing* - examining financial and budget reports; monitoring investments



The governing body is responsible for the proper administration of its community's financial affairs under Wyoming State Statute 15-1-103(a).

These statutory powers include:

- The preparation, maintenance and retention of required records and accounts
- Arranging for independent audits of the financial condition of the city or town
- The power to appropriate money and to pay all necessary expenses
- The power to levy up to eight mills of property tax
- The power to levy and collect special assessments
- The power to borrow money on the credit of the corporation

Governing bodies have staff to assist with these important financial oversight functions. The Municipal Treasurer and/or Clerk/Treasurer is typically the employee with custody of all moneys of the organization. As custodian, he or she is responsible for the proper receipt and use of such moneys regardless of who actually receives and or pays it out.

Fiscally competent local officials:

- Are concerned about the fiscal condition of their organization
- Seek to hold administrators accountable by asking tough questions
- Become knowledgeable about their agency's finances and budget
- Use common sense and are not hesitant to ask questions

LOCAL GOVERNMENT REVENUES

Local governments get most of their money from taxes, user fees and charges, and funding from other governments. The local economy and decisions of state and federal governments play a major part in local government funding. As stated in the Wyoming Constitution, local officials have very little local decision making authority when it comes to taxes and fees:

“The legislature shall restrict the powers of such municipal corporations to levy taxes and assessments, to borrow money and contract debts so as to prevent abuse of such power...”
(Wyoming Constitution Article 13, Section 3)

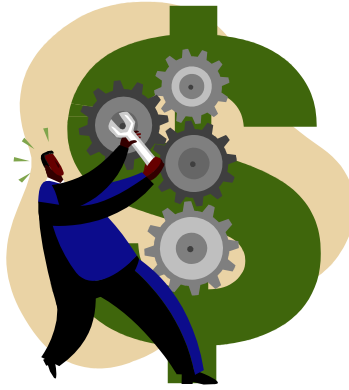
The Legislature has given some revenue-raising authority to municipalities, such as utility charges, but the bulk of general fund revenues, such as severance tax, mineral royalties, and sales and use tax, are tightly controlled by the Legislature and administered by State government.

STATE REVENUE SOURCES

Statewide Sales and Use Tax (Excise tax) - sales tax applies to the retail sale of personal property or services. Use tax applies to purchases involving the use, storage or other consumption of goods received or used in Wyoming but purchased outside Wyoming. A percentage of the statewide sales and use tax (30% for FY 2012) is returned to the county to which the sales transaction is attributed, and then divided among the county and its cities and towns based on the percentage of population to total county population. This is the largest source of municipal revenue.

Optional Sales and Use Tax/Special Purpose Sales and Use Tax - except for a 1% administrative fee, all is distributed back to county of transaction where it is divided the same way as the statewide sales and use taxes. These taxes are imposed on a county-wide basis. The general revenue tax requires voter approval when first imposed but it can be continued by resolution. The specific purpose tax always requires voter approval. The revenues from the specific purpose local option tax must

be used to pay for specific capital needs identified in the ballot proposition. The general revenue local option tax is used for both capital and operating needs.



Special Fuels - Per gallon tax; a small share is distributed to cities and towns based on ratio of municipal population to population of all municipalities in state.

Federal Mineral Royalties

– Cities and towns annually receive 9.375% of the state’s federal mineral royalty, capped at \$18, 562,500. The share for the municipalities in each county is the ratio of the county school Average Daily Membership (ADM) to the total ADM for the state; distribution within each county is based on the population percentage of all cities and towns in the county.

Mineral Severance Tax – Cities and towns annually receive 9.25% of the tax on all minerals produced in the state, capped at \$14,337,500. Distribution is based on population - each municipality receives an amount proportional to its percentage of total state incorporated population.

Gasoline Fuel Tax - Per gallon tax; a small share is distributed to cities and towns partly based on population and partly on point of retail sale.

Cigarette Tax - excise tax per pack sold by wholesaler; wholesaler retains percentage of total and a share of the remainder is distributed to local government entities. Basis of distribution: point-of-sale to retailer.

LOCAL REVENUE SOURCES

Property Tax - based on assessed valuation of property within city limits and limited by the Wyoming constitution to eight mills (one mill is one-one thousandth, 0.001). If the municipality receives fire protection from a fire district, the eight mill limit is reduced by the mills levied by the district (maximum reduction of three mills).

Vehicle Registration Fees – county fee is based on a declining percentage of the factory price. The municipal portion of the county fee is the municipal mill levy divided by the total county mill levy.

Franchise Fees - charges for use of right-of-way by private utilities (power, phone, natural gas, cable television).

Interest Income - interest earned from bank depositories on municipal funds.

Fines and Forfeitures - available if municipality operates a municipal court - maximum fine is set by state statute.

Business Licenses – various types including contractors, transient merchants, liquor licenses, etc. State statutes control the number and maximum amount of fees for liquor licenses.

Permits and Fees - planning, building, demolition, signs, curb cuts, cemetery, animal licenses, parking, etc.

Development Fees - water and sewer lines, streets, street signs, street and traffic lights, water and sewer plant investment or connections, park contributions, etc.

User Fees- swimming, golf, facilities rental, camping, recreation programs, etc.

Utility Fees – Water, sewer, sanitation, landfill and electricity in a few cities. Typically these are true enterprise operations for which all or nearly all of the cost should be paid from the revenues generated. Setting the utility rates (user charges) is an important responsibility of the elected officials. There is always political resistance to raising the rates, but it is dangerous and irresponsible to set rates too low.

In the long run, there must be adequate revenue to pay the costs of operation and maintenance as well as establishing a replacement fund for future capital needs. Typical components of a user charge system include a customer service charge, a demand charge and a commodity charge. The customer service charge recovers costs that apply equally to each user of the system regardless of demand or quantity used. The demand charge can be assessed to recover costs of debt service and replacement funds. It is typically based on the size of the customer's meter or service. A commodity or volume charge is assessed based on the quantity used during a billing period.



GRANTS

Wyoming cities and towns derive a significant benefit from both state and federal grants. Typical grants are for specific purposes and include strict conditions and requirements. Most grants require a local match and there are often grant-loan combinations. Grants may be for operating needs such as training and technical assistance, but grants for capital projects are more common. Some of the sources of state grants are the Wyoming Business Council, the State Loan and Investment Board (SLIB) and the Wyoming Water Development Commission. Sources of federal grants include United States Department of Agriculture (USDA) Rural Development, Homeland Security, and the Justice Department.

BORROWED FUNDS

Two common types of borrowing are general obligation bonds and revenue bonds. General obligation bonds pledge the “full faith and credit” of the local government. Local governments agree to use tax money to repay the debt. Wyoming municipal governments are limited to eight mills of their assessed property tax valuation

in the issuance of general obligation bonds. General obligation bonds cannot be issued unless a majority of the voters approve.

Revenue bonds are repaid from revenues the project itself generates. Water and sewer projects lend themselves well to the issuance of revenue bonds, where revenues from user fees can be used for repayment. Communities have also pledged the future revenue from a specific purpose local option sales and use tax to finance bonds that allow for early construction of the approved project.

EXPENDITURES

In order to provide the services and facilities that the public wants and needs, cities and towns make a wide variety of expenditures. Because the funds involved are public funds, and because it is critically important that the government operates in a very open and totally honest way, local governments go to great lengths and have extra expenses to accomplish these purposes. From a narrow and short term perspective it may seem like this

is a waste of money. The private sector does not operate in this way. However, in the long run, in order to earn and maintain public trust and to achieve maximum effectiveness, government must take these additional measures and pay for them.

The activities of government generally fall into two categories – utility-type functions and general government functions. Within each of these categories, the costs also generally fall into two categories – operating expenses and capital expenses. There is also a general distinction between services and infrastructure that are considered basic and those that are optional.

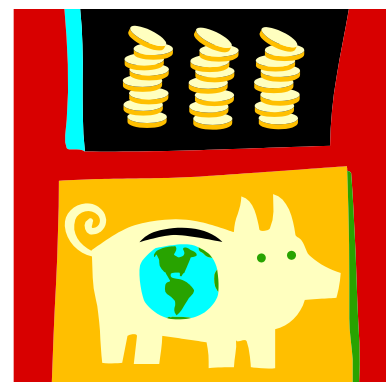
CAPITAL EXPENSES

Capital expenses are those that involve acquiring or constructing physical assets. Major costs for land, buildings, equipment, treatment plants, and pipelines are capital costs. Capital costs within a specific area of activity are usually one-time or infrequent expenses. Small communities may go quite some time between capital expenditures. Large communities usually have capital expenses every year. Municipalities

typically pay for capital projects by obtaining grants from state or federal agencies, saving up money for several years, or borrowing.

OPERATING EXPENSES

In general the operating expenses of cities and towns are ongoing rather than one-time. Since municipal services are people intensive, the costs of wages, salaries and benefits are the greatest cost for cities and towns. Other typical costs include supplies, utilities, insurance, maintenance, communications, transportation, information technology, training, required publications, professional services, etc. It is often the case that the most expensive functions are law enforcement, fire protection and street maintenance.



SAVINGS - DEPRECIATION FUNDS AND RESERVES

Cities and towns receive several kinds of revenues that are not to be spent immediately but are held for future uses. These are often referred to as depreciation funds or reserves.

DEPRECIATION FUNDS

The purpose of these funds is to save money to pay for the future replacement of a capital asset – large equipment or buildings, for example.

RESERVES (FUND BALANCES)

A fund balance is defined as the cumulative difference of all revenues and expenditures since the government's creation. Thus, a current fund balance results from the cumulative financial decisions made by every governing body since the government's formation!

Positive fund balances are also called reserves. However, not all of these funds are available for spending. The Wyoming Department of Audit considers **Restricted Reserves** to be those legally obligated and set aside for a particular purpose. **Designated**

Reserves are set aside by the governing body for a particular use, but without a binding legal obligation – the governing body is free to change its' mind. Designated Reserves are legally unreserved and are available for appropriation or spending.

Approaches to establishing proper reserve levels include:

- A fixed number of months of operating expenses
- A percentage of annual operating expenditures
- A percentage of annual operating revenues
- A fixed amount, such as \$2 million
- A per capita amount, such as \$150 per capita

To establish a reserve level, a municipality should consider:

- Cash flow needs
- Revenue volatility
- Vulnerability to lawsuit
- Insurance coverage
- Natural disaster preparedness
- Other natural events – snowstorms, floods
- Grant revenue source dependency

INVESTMENT POLICY

For both depreciation funds and other reserves municipalities have options for where to keep the money. It is important for the money to be very safe but it is also important to secure a reasonable rate of return.

Municipalities cannot invest in the stock of corporations, but there are several options that are allowed.

Municipalities are required to adopt a “Statement of Investment Policy.” The investment policy should be clear about the types of investments permitted, maturity limits, liquidity requirements, internal controls, reporting requirements and portfolio diversity requirements. It should also be very clear on who has the authority to make purchases.

*Budget: a mathematical confirmation
of your suspicions.*

—A.A. Latimer—

HOW DOES A CITY OR TOWN TRACK AND MANAGE ITS MONEY?

Wyoming Statutes provide the primary laws that govern the finances of cities and towns.

SOURCES OF INFORMATION

The most comprehensive statutes are in the Uniform Municipal Fiscal Procedures Act (W.S. §16-4-101 through 125). This act applies primarily to First Class cities, towns with the City Manager form of government and to towns with population exceeding 4,000. However, the Act does include several provisions that apply to all cities and towns.

- *W.S. §15-1-110 applies to all cities and towns*
- *W.S. §15-2-201 through 204 applies to towns*
- *W.S. § 15-3-205 through 306 applies to First Class cities*
- *W.S. §15-4-201 through 303 applies to City Manager cities*

The Government Accounting Standards Board (GASB) sets the “generally accepted accounting principles” for state and local governments. GASB Statement No. 34 is the current standard for governments and is designed to make municipalities more fiscally accountable to the public. Under this law, accrual accounting is required for all government activities and all capital assets are generally required to be depreciated. Accrual basis transactions are recorded when they occur regardless of when cash is received or disbursed. Modified accrual basis may be used where expenditures are recorded at the time liabilities are incurred and revenues are recorded when received. GASB 34 also requires that fixed asset records must be maintained by public entities. Capital assets are those assets that have a useful life extending beyond a single reporting period.

FUND ACCOUNTING

Public accounting commonly differs from private sector accounting in one key way - in a business context, everything is brought together in a single balance sheet. In governmental

accounting, a number of separate funds are used, each with its own balance sheet.

A fund is defined as an independent fiscal entity with assets, liabilities, reserves, fund balance, revenues and expenditures for undertaking activities. A fund includes balance sheet accounts as well as revenue and expenditure accounts. The various funds of a city or town are generally grouped into generic types:

General fund - the main operating fund. All financial transactions not properly accounted for in another fund go here. Governing bodies should spend most of their time understanding, analyzing and evaluating this fund.

Special revenue funds - these funds are used to account for resources that are legally or administratively restricted for specific purposes. Examples are restricted grants and special assessments levied against properties specially benefited by the making of local improvements.



Debt service funds - payment of principal and interest on long-term debt other than special

assessment and revenue bonds. General obligation bond and special assessment bond funds are examples.

Capital project funds - used for the acquisition of capital assets other than those specified by enterprise and special assessment funds. May involve long-term debt and intergovernmental grants.

Enterprise funds - These funds are used to account for operations that are financed and operated in a manner similar to business enterprises. The costs are primarily paid by user charges or the governing body determines that a “net profit” analysis is appropriate. Examples may include water, sewer, sanitation, recreation programs.

Trust and agency funds - assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units.

Internal service funds - the financing of special activities and services performed by a department or agency to other departments on a cost-reimbursement basis (motor pool, health insurance fund).

The most important thing to remember about fund accounting is that dollars earmarked for specific purposes in a fund usually cannot be used for other purposes. For example, money from the water fund cannot be used for police protection, and vice versa.

BUDGETING

The preparation and adoption of a budget is the responsibility of the governing body of each city and town. The municipal budget process is explained in detail in the WAM brochure “Guidelines for Preparing the Municipal Budget.”

CONTRACTS FOR PUBLIC IMPROVEMENTS (BIDDING, ALTERNATE DELIVERY)

Wyoming law requires all cities and towns to advertise for bids on all contracts for any type of public improvement if the estimated expenditure exceeds \$35,000.

(W.S. §15-1-113) A contract for the purchase of a new automobile or truck must be advertised for bids regardless of estimated cost. The advertisement for bids must be published twice in the designated municipal newspaper and the date, time and place when the bids will be received and publicly opened must be stated.

The contract must be awarded to the lowest responsible bidder unless the governing body finds that none of the bids are in the public interest (which might occur, for example, if all the bids are too high). Contracts must be executed by the mayor or, in his absence, the presiding officer of the governing body and the municipal clerk or designee of the governing body. Contracts for professional services are excluded from this requirement to bid.

Alternate design and construction delivery methods such as design-build or construction-manager-at-risk may be used by a public entity to design, construct, alter, repair or maintain public works projects. (W.S. §16-6-701 through §16-6-708).



DEPOSITORIES (BANKS)

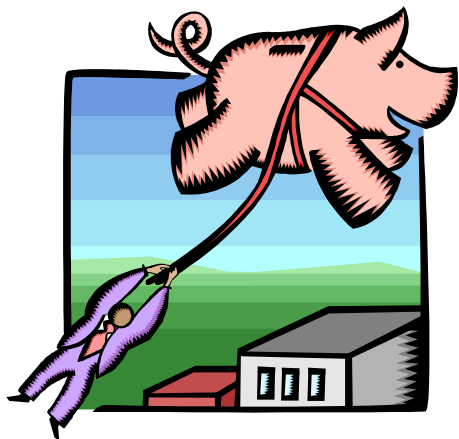
The governing body is responsible for officially designating depositories for a city or town. No funds may be deposited by the treasurer except in depositories approved by resolution of the governing body.

*I'm living so far beyond my income
that we may almost be said
to be living apart.*

—E. E. Cummings—

PAYING BILLS

All claims against a municipality have to be presented to the governing body by itemized invoice from a vendor. No expenditure can be made by the governing body unless a budgetary appropriation has been made. No payment can be approved by the governing body unless the claim is certified by the vendor or an authorized employee of the municipality receiving the items or services rendered. Once the claim has been approved, the treasurer shall issue a check or warrant, signed by the mayor and countersigned by any other authorized person. A warrant contains the particular fund or appropriation to which chargeable, the person to whom payable and the purpose. Facsimile signatures may be used as provided by W.S. §16-2-101 through §16-2-103.



PURCHASING

State statute does not provide for any particular purchasing procedures to be followed. The WAM Clerk/Treasurer Handbook has additional information about purchasing. Good purchasing practices should include:

- Centralization of all purchasing where possible
- Establishment and maintenance of adequate inventory controls
- Competition among suppliers
- Obtaining quotes (at least informally) on all purchases and services

REPORTING AND AUDITING

All incorporated first class cities or towns with a population in excess of 4,000 must maintain their accounting records in accordance with Generally Accepted Accounting Principles (GAAP). (W.S. §16-4-120)

All first class cities, towns over 4,000 population and those with a city manager form of government are required to have an annual Certified Public Accountant (CPA) audit. (W.S. §16-4-121) The audit reports must conform to generally accepted accounting principles. Copies of all

audit reports must be filed with the state auditor and with the appropriate county clerk who must make them available for inspection by any interested person.

At the end of each fiscal year, every municipality prepares the Annual City and Town Financial Report for submittal to the Wyoming Department of Audit. This document summarizes all of the government's financial activity: what it has received, what it has borrowed, what it has spent, what it is obligated to spend, and what it has in the fund balance. Much of the information in this report is required by the Federal Bureau of the Census.

The financial reporting helps local officials better understand the financial situation of their government. It also measures the accuracy of the government's financial dealings and informs citizens about their local government's financial condition. Lenders and regulators may rely on audits to verify how public funds are spent.

INTERNAL CONTROLS – PREVENTING FRAUD, THEFT, AND ABUSE

Internal controls are necessary to protect the people's assets against misuse or loss and to make sure that all financial transactions are legal and authorized. The key is to divide duties and to have more than one person review investment and spending decisions. A municipality should have an adopted internal control policy covering the following items:

- Budget adoption
- Segregation of duties, cash handling
- Billing and accounts receivable, purchasing and accounts payable
- Personnel and payroll
- Inventory, capital assets and debt
- General ledger and journal entries
- Grant administration

It is important to be aware that a normal annual audit by a CPA is not designed to detect fraud or abuse. Fraud audits are a specialty best performed by a professional with that expertise. Whenever there is a change

in a key financial position (treasurer, city manager, payroll supervisor, etc.) it is advantageous to conduct a fraud audit. This serves to protect those who are innocent and honest.

SPECIAL PROVISIONS FOR FIRST CLASS CITIES, TOWNS OVER 4,000 AND CITY MANAGER FORMS OF GOVERNMENT

The financial books may be inspected at any time by any member of the governing body or other persons designated by law. (W.S. §15-3-209)

All purchases or all encumbrances shall be made or incurred only upon an order or approval of the person (or governing body) authorized to make such purchases. (W.S. §16-4-107)

No officer or employee shall make any expenditure or encumbrance in excess of the total appropriation for any department. The budget officer shall report to the governing body any expenditure or encumbrance made in violation of this subsection. (W.S. §16-4-108 (a))



The expenditure of municipality monies, other than employee contract payments, may be authorized by the governing body when the payee has provided an invoice or other document identifying the quantity and total cost per item or for the services rendered and the claim is certified under penalty of perjury by the vendor or by an authorized municipal representative receiving the items or for whom the services were rendered. (W.S. §16-4-108 (b))

The governing body must see to it that a report of a semi-annual interim financial statement and an annual statement of the financial condition of the city is published.

SPECIAL PROVISIONS FOR TOWNS WITH POPULATION UNDER 4,000

In towns with a population under 4,000, the treasurer must keep accounts in such form that they show when the money is received and the source of it and when and to whom any money is paid out. All financial records of the city or town can be examined by any member of the governing body or elector of the town. The treasurer is responsible for providing at least a quarterly financial report to the governing body. (W.S. §15-2-203)

Immediately after the end of the fiscal year, the governing body shall publish (or post if no newspaper exists), an exhibit of the receipts and expenditures of the town. This exhibit must show the budgeted and actual receipts for

all revenue sources, the amount and purpose of each appropriation, and the actual expenditure made against each appropriation. (W.S. §15-2-204)

Some towns choose to have a CPA audit, even though they are not required to do so. If a town under 4,000 population receives at least \$500,000 total in Federal grants or loans, they are also required to have an independent audit.

*I wish I would have listened a bit more,
questioned a bit more, and trusted just a bit less.*

*—Orange County Board of Supervisors Chair Thomas Reilly
after the County Filed Bankruptcy—*

*The trick is to stop thinking of it as
'your' money.*

—IRS auditor—



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