



VML/VACO Annual Finance Forum

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- Financial Health
- What is Fiscal Stress?
- Stages of Fiscal Stress
- APA New Requirements from the General Assembly
- Local Government Financials
- Financial Recovery

FINANCIAL HEALTH

**Government can deliver services
citizens expect with resources
citizens provide, now and in the
future.**

FIVE PRINCIPLES OF FINANCIAL HEALTH

- **More than a grade - No single grade or rating can be comprehensive**
- **More than a balanced budget**
- **Requires a focus on context**
- **Is everyone's responsibility**
- **Effective operations management-
cost savings, efficiencies**

Three Main Components

- **Cash Solvency** - Are bills paid when due?
 - Enough cash to pay bills due for the next 60 to 90 days?
- **Long-Term Solvency** – Will revenues cover long-term needs?
 - Long-term debt, pension expenses and retiree health care and other spending needs
- **Service-Level Solvency** – Continue to deliver basic services in the face of major changes in economy and political circumstances

Questions for Identifying Financial Health

What ...

- 1. Is the budget process?**
- 2. Is the policy for fund balance?**
- 3. Is liquidity – meeting short term needs?**
- 4. Is ratio of revenues vs. expenses**
- 5. Is total liabilities as a percentage of revenues?**
- 6. Are debt management/affordability policies?**
- 7. Are capital assets conditions?**
- 8. Are actual revenues compared to budget?**
- 9. Are controls over expenditures?**
- 10. Reliance does the budget have on State/Federal Aid?**

“Fiscal Distress” defined in the context of Chapter 836, §4-8.03:

*“A situation whereby the provision and sustainability of public services is threatened **by various administrative and financial shortcomings** including but not limited to cash flow issues; inability to pay expenses; revenue shortfalls; deficit spending; structurally imbalanced budgets; billing and revenue collection inadequacies and discrepancies; debt overload; failure to meet obligations to authorities, school divisions, or political subdivisions of the Commonwealth; and/or lack of trained and qualified staff to process administrative and financial transactions.”*

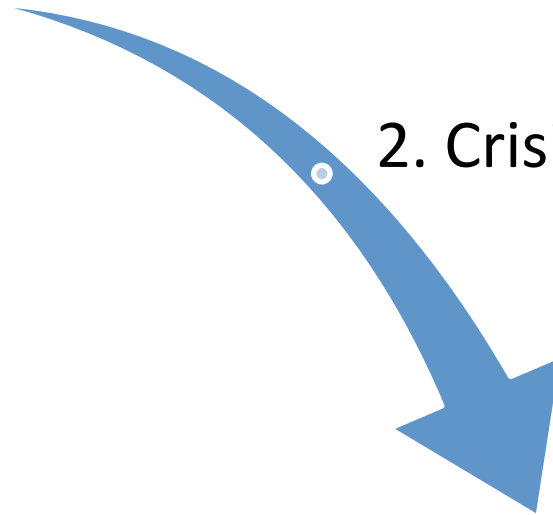
Stages of Local Fiscal Difficulty

1. Distress – Sustained period of budgetary imbalance, cutbacks to essential services and inability to pay bills.
2. Crisis – Mechanisms to address budgetary issues, such as expense reductions, tax/fee increases and short term borrowing fail to stabilize problem(s) resulting in financial emergency.
3. Bankruptcy – Rarely, localities may file for Chapter 9 bankruptcy (not authorized in Virginia).

1. Distress

2. Crisis

3. Bankruptcy



APA Fiscal Distress Monitoring Overview

- 2017 Virginia Acts of Assembly directs the APA to establish a prioritized early warning system to identify possible local fiscal distress within localities on an annual basis.
- Localities are given a Financial Assessment Model (FAM) score based on analysis of audited financial statement data and other qualitative factors.

FAM Score Calculation

- APA using a model to calculate 10 ratios using audited data from the localities' CAFRs
- Each locality's performance ranked by ratio, then into percentile rankings
- An average of the percentile rankings determines overall FAM score
- APA uses the FAM score to evaluate and make a preliminary determination for need to follow-up

FAM Score Ratios

Based on the Government Wide Financial Statements:

- Ratio #1 – ability to make up revenue shortfall
- Ratio #2 – ability to pay current liabilities without additional revenue
- Ratio #3 – are existing revenues sufficient to pay total liabilities
- Ratio #4 – ability to meet future obligations
- Ratio #5 – sufficient reserves to pay expenses with a revenue shortfall
- Ratio #6 – to what extent are assets financed with debt

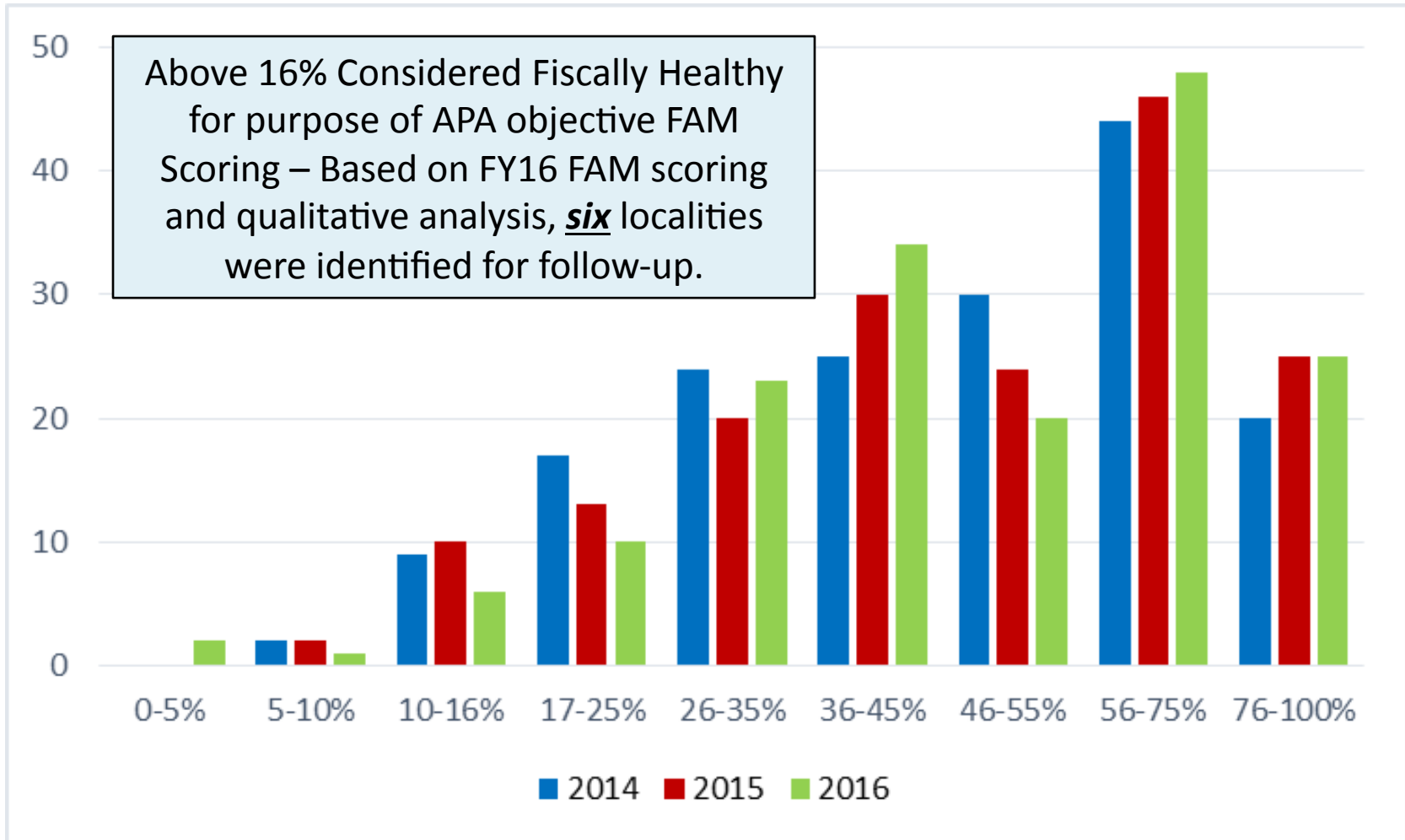
Based on the General Fund Balance Sheet and Income Statement:

- Ratio #7 – ability to pay liabilities without additional revenues
- Ratio #8 – is the locality paying its bills timely
- Ratio #9 – how long can reserves fund current expenditures
- Ratio #10 – total reserves compared to total revenue

APA Fiscal Distress – Notifications to Localities

- For a FAM score that causes concern (16% or less), notification letter sent to Governing body and Management
- Explained the FAM calculation process and the cause for concern
- Explained APA's follow up process using the questionnaire
- Explain potential assistance available

Distribution of FAM Scoring



Fiscal Assessment Follow Up Questions

(Budget Process)

1. Does the locality have a structurally balanced budget ?
2. Has the locality utilized any significant transfers in order to balance the budget?
3. How many times during the FY has the locality made amendments to its budget?
4. What is the locality's budget monitoring and reporting process.

Fiscal Assessment Follow Up Questions

(Debt and Borrowings)

1. Delinquent on any debt service payments?
2. Non-compliant with any debt covenants?
3. Any significant borrowings between funds?
4. Any tax or revenue anticipation notes/ loans?
5. Any other type of short-term financing/ debt?

Fiscal Assessment Follow Up Questions

(Expenses and Payables)

1. Any payments in arrears to vendors or authorities?
2. Any instances of not meeting the Prompt Payment Act?
3. Use of any AP aging analysis tools or reporting techniques to review liabilities and maximize cash flow?
4. Delinquent in paying any payroll taxes?
5. Delinquent in paying any retirement contributions to the VRS?
6. Delinquent in paying worker's compensation and/or health insurance premiums?

Fiscal Assessment Follow Up Questions

(Revenues and Receivables)

1. Any “one-time” significant revenue items?
2. Experiencing any significant issues with collecting receivables?
3. Use of any AR aging analysis tools or reporting techniques to review collections and overdue, delinquent accounts?
4. Is there a significant increase in delinquent accounts?
5. Any significant revenue shortfall in a specific local revenue?

Fiscal Assessment Follow Up Questions

(Other Areas and Reporting)

1. Any vacancies in key management and/or finance related positions?
2. Any major issues with implementing new systems or technology?
3. Did the independent auditor report any material weaknesses and/or significant deficiencies during the last FY?
4. Did the independent auditor bring to the attention of management and the governing body any other matters or control deficiencies?
5. Did the independent auditor provide an unmodified opinion on the locality's financial statements?
6. In the CAFR, did the independent auditor's report emphasize any concern about the locality's fiscal ability or describing potential fiscal stress?
7. Did the CAFR include a disclosure on the ability to continue as a going concern?

INTERPRETING LOCAL GOVERNMENT FINANCIALS

- Are we looking at the REAL financial statements – Government-Wide Statements or Fund Statements?
 - Government-Wide: Operational accountability, long-term focus
 - Fund Statement: Fiscal accountability, near-term results and their impact on near-term cash flows.
- Fund Balance - not always a measure of financial well-being. Do you have sufficient reserves to meet today and tomorrow? How many days of operations can you cover with cash and short term receivables?
- How sustainable are principal revenue sources and how are they performing?
- What is the message from budgeted revenue and expenditure variances?

Statement of Net Position
June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	School Board
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 240,711	\$ -	\$ 240,711	\$ -
Restricted cash	11,585,445	7,394,075	18,979,520	-
Receivables (net of allowance for uncollectibles):				
Property taxes	6,989,277	-	6,989,277	-
Accounts receivable	1,981,508	1,446,007	3,427,515	-
Prepaid items	-	-	-	75,000
Inventory	5,153,436	675,901	5,829,337	86,591
Due from Primary Government	-	-	-	5,278,031
Internal balances	279,781	(279,781)	-	-
Due from other governmental units	5,214,586	134,361	5,348,947	3,130,333
Total Current Assets	\$ 31,444,744	\$ 9,370,563	\$ 40,815,307	\$ 8,569,955
Capital Assets (net of depreciation):				
Land	\$ 6,046,998	\$ 5,123,939	\$ 11,170,937	\$ 5,000
Construction in progress	3,866,610	540,938	4,407,548	523,278
Land improvements	-	494,490	494,490	100,987
Utility plant in service	-	18,567,672	18,567,672	-
Water capacity rights	-	2,210,000	2,210,000	-
Buildings and improvements	31,589,655	20,712,084	52,301,739	6,354,231
Vehicles	1,785,756	1,822,866	3,608,622	998,492
Equipment and machinery	2,252,434	331,555	2,583,989	320,933
Infrastructure	12,359,697	-	12,359,697	-
Total Capital Assets	\$ 57,901,150	\$ 49,803,544	\$ 107,704,694	\$ 8,302,921
Total Assets	\$ 89,345,894	\$ 59,174,107	\$ 148,520,001	\$ 16,872,876
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	\$ 3,350,413	\$ 611,878	\$ 3,962,291	\$ 5,686,645
Total Assets and Deferred Outflows of Resources	\$ 92,696,307	\$ 59,785,985	\$ 152,482,292	\$ 22,559,521
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 5,834,551	\$ 530,288	\$ 6,364,839	\$ 5,668,340
Reconciled overdraft	-	6,120,463	6,120,463	550,150
Accrued interest payable	313,773	135,248	449,021	-
Advance payable	-	80,000	80,000	-
Unearned revenue	397,047	-	397,047	32,786
Customer deposits	40,207	613,339	653,546	-
Due to Component Unit School Board	5,278,031	-	5,278,031	-
Current portion of litigation payable	424,960	-	424,960	-
Current portion of long-term obligations	4,503,750	718,411	5,222,161	58,793
Total Current Liabilities	\$ 16,792,319	\$ 8,197,749	\$ 24,990,068	\$ 6,310,069
Noncurrent Liabilities:				
Noncurrent portion of litigation payable	\$ 500,000	\$ -	\$ 500,000	\$ -
Noncurrent portion of long-term obligations	67,907,506	19,777,649	87,685,155	41,833,014
Total Noncurrent Liabilities	\$ 68,407,506	\$ 19,777,649	\$ 88,185,155	\$ 41,833,014
Total Liabilities	\$ 85,199,825	\$ 27,975,398	\$ 113,175,223	\$ 48,143,083
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	\$ 8,819	\$ -	\$ 8,819	\$ -
Pension deferrals	3,983,029	307,020	4,290,049	4,112,731
Total Deferred inflows of Resources	\$ 3,991,848	\$ 307,020	\$ 4,298,868	\$ 4,112,731
NET POSITION				
Net investment in capital assets	\$ 20,071,779	\$ 38,557,116	\$ 58,628,895	\$ 8,302,921
Restricted for grants	2,400,721	-	2,400,721	-
Restricted for debt service	-	489,434	489,434	-
Restricted for McKenney scholarships	8,536	-	8,536	-
Restricted for perpetual care and library	1,865,993	-	1,865,993	-
Unrestricted (deficit)	(20,842,395)	(7,542,983)	(28,385,378)	(37,999,214)
Total Net Position	\$ 3,504,634	\$ 31,503,567	\$ 35,008,201	\$ (29,696,293)
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 92,696,307	\$ 59,785,985	\$ 152,482,292	\$ 22,559,521

The accompanying notes to financial statements are an integral part of this statement.

Balance Sheet - Governmental Funds
At June 30, 2016

	Governmental Funds			Total Governmental Funds
	General	Capital Projects	Non Major Funds	
ASSETS				
Cash and cash equivalents	\$ -	\$ 4,299,812	\$ 3,187,050	\$ 7,486,862
Restricted cash	3,855,383	5,855,533	1,874,529	11,585,445
Receivables (Net of allowances for uncollectibles):				
Taxes	6,989,277	-	-	6,989,277
Accounts	1,634,786	-	346,722	1,981,508
Inventory and land held for resale	5,153,436	-	-	5,153,436
Due from other funds	250,071	2,091,952	-	2,342,023
Due from other governmental units	4,885,093	-	329,493	5,214,586
Total assets	\$ 22,768,046	\$ 12,247,297	\$ 5,737,794	\$ 40,753,137
LIABILITIES				
Accounts payable	\$ 1,434,495	\$ 137,743	\$ 662,631	\$ 2,234,869
Reconciled overdraft	7,217,403	-	28,748	7,246,151
Accrued salaries payable	3,475,635	-	124,047	3,599,682
Deposits held	40,207	-	-	40,207
Unearned revenue	-	-	397,047	397,047
Due to other funds	1,812,171	-	250,071	2,062,242
Due to Component Unit School Board	2,207,545	3,070,486	-	5,278,031
Total liabilities	\$ 16,187,456	\$ 3,208,229	\$ 1,462,544	\$ 20,858,229
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	\$ 5,050,095	\$ -	\$ -	\$ 5,050,095
FUND BALANCE				
Nonspendable:				
Inventory and land held for resale	\$ 5,153,436	\$ -	\$ -	\$ 5,153,436
Cemetery Perpetual care and library	-	-	1,865,993	1,865,993
McKenney scholarships	-	-	8,536	8,536
Interfund loans	250,071	-	-	250,071
Restricted:				
Grants	-	-	2,400,721	2,400,721
Debt service	3,855,383	-	-	3,855,383
Capital projects	-	9,039,068	-	9,039,068
Unassigned (deficit)	(7,728,395)	-	-	(7,728,395)
Total fund balances	\$ 1,530,495	\$ 9,039,068	\$ 4,275,250	\$ 14,844,813
Total liabilities, deferred inflows of resources and fund balance	\$ 22,768,046	\$ 12,247,297	\$ 5,737,794	\$ 40,753,137
Fund balances above				\$ 14,844,813

Detailed explanation of adjustments from fund statements to government-wide statement of net position:

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the locality as a whole.

57,901,150

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

(313,773)

Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.

Items related to measurement of net pension liability

(3,983,029)

Pension contributions subsequent to the measurement date will be a reduction to/increase in the net pension liability/asset in the next fiscal year and, therefore, are not reported in the funds.

3,350,413

Some of the City's property taxes will be collected after year-end, but are not available soon enough to pay for the current year's expenditures, and therefore are reported as unavailable in the funds.

5,041,276

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities--both current and long-term--are reported in the statement of net position.

(73,336,216)

Net position of General Government Activities

\$ 3,504,634

The accompanying notes to financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 June 30, 2016

	Public Utility Fund	Mass Transit Fund	Golf Course Fund	Totals
ASSETS				
Current Assets				
Restricted cash	\$ 7,394,075	\$ -	\$ -	\$ 7,394,075
Receivables (net of allowance for uncollectibles):				
Accounts receivable	1,446,007	-	-	1,446,007
Due from other governmental units	-	134,361	-	134,361
Inventory	433,886	199,320	42,695	675,901
Total Current Assets	\$ 9,273,968	\$ 333,681	\$ 42,695	\$ 9,650,344
Capital assets (net of depreciation):				
Land	\$ 173,898	\$ 1,566,994	\$ 3,383,047	\$ 5,123,939
Construction in progress	540,938	-	-	540,938
Land improvements	-	-	494,490	494,490
Utility plant in service	18,567,672	-	-	18,567,672
Buildings and improvements	-	19,770,156	941,928	20,712,084
Water capacity rights	2,210,000	-	-	2,210,000
Vehicles	73,589	1,749,277	-	1,822,866
Equipment and machinery	139,889	157,579	34,087	331,555
Total capital assets (net of accumulated depreciation)	\$ 21,705,986	\$ 23,244,006	\$ 4,853,552	\$ 49,803,544
Total Assets	\$ 30,979,954	\$ 23,577,687	\$ 4,896,247	\$ 59,453,888
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	\$ 186,518	\$ 358,965	\$ 66,395	\$ 611,878
Total Assets and Deferred Outflows of Resources	\$ 31,166,472	\$ 23,936,652	\$ 4,962,642	\$ 60,065,766
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 156,867	\$ 131,485	\$ 28,897	\$ 317,249
Reconciled overdraft	1,310,101	2,852,922	1,957,440	6,120,463
Accrued salaries payable	79,478	119,607	13,954	213,039
Accrued interest payable	90,261	-	44,987	135,248
Advance payable	-	80,000	-	80,000
Due to other funds	-	-	279,781	279,781
Customers' deposits payable	613,339	-	-	613,339
Current portion of compensated absences	6,264	7,844	2,797	16,905
Current portion of capital leases	280,287	-	5,871	286,158
Current portion of premium on bonds issued	24,612	-	-	24,612
Current portion of general obligation bonds	289,849	-	100,887	390,736
Total Current Liabilities	\$ 2,851,058	\$ 3,191,858	\$ 2,434,614	\$ 8,477,530
Noncurrent Liabilities:				
Noncurrent portion of compensated absences	\$ 56,371	82,593	25,176	164,140
Noncurrent portion of capital leases	4,772,740	-	-	4,772,740
Noncurrent portion of premium on bonds issued	613,237	-	-	613,237
Noncurrent portion of net pension liability	1,039,445	1,044,859	107,219	2,191,523
Noncurrent portion of general obligation bonds	7,939,881	-	4,096,128	12,036,009
Total Noncurrent Liabilities	\$ 14,421,674	\$ 1,127,452	\$ 4,228,523	\$ 19,777,649
Total Liabilities	\$ 17,272,732	\$ 4,319,310	\$ 6,663,137	\$ 28,255,179
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	\$ 166,538	\$ 124,843	\$ 15,639	\$ 307,020
NET POSITION				
Net investment in capital assets	\$ 14,662,444	\$ 23,244,006	\$ 650,666	\$ 38,557,116
Restricted for debt service	489,434	-	-	489,434
Unrestricted	(1,424,676)	(3,751,507)	(2,366,800)	(7,542,983)
Total Net Position	\$ 13,727,202	\$ 19,492,499	\$ (1,716,134)	\$ 31,503,567
Total Liabilities, Deferred Inflows of resources, and Net Position	\$ 31,166,472	\$ 23,936,652	\$ 4,962,642	\$ 60,065,766

The accompanying notes to financial statements are an integral part of this statement.

Schedule of Revenues, Expenditures and Changes in Fund Balances --
 Budget and Actual -- General Fund
 Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance From Final Budget Positive (Negative)
Revenues:				
General property taxes	\$ 36,963,995	\$ 36,963,995	\$ 34,495,560	\$ (2,468,435)
Other local taxes	14,276,706	14,276,706	12,341,696	(1,935,010)
Permits, privilege fees and regulatory licenses	837,627	837,627	436,992	(400,635)
Fines and forfeitures	929,769	929,769	407,471	(522,298)
Revenue from use of money and property	318,594	318,594	372,387	53,793
Charges for services	3,469,839	3,607,850	2,903,461	(704,389)
Miscellaneous	452,115	452,115	458,913	6,798
Recovered costs	892,000	892,000	388,622	(503,378)
Intergovernmental:				
Commonwealth	17,606,195	12,653,355	15,004,874	2,351,519
Federal	4,682,789	4,682,789	4,580,259	(102,530)
Total revenues	\$ 80,429,629	\$ 75,614,800	\$ 71,390,235	\$ (4,224,565)
Expenditures:				
Current:				
General government administration	\$ 7,338,790	\$ 7,338,520	\$ 7,397,973	\$ (59,453)
Judicial administration	2,245,715	2,245,715	2,196,250	49,465
Public safety	20,596,907	20,596,907	20,899,960	(303,053)
Public works	5,004,491	5,004,491	4,867,105	137,386
Health and welfare	12,440,713	12,777,741	13,227,205	(449,464)
Education	11,667,512	11,667,512	10,593,975	1,073,537
Parks, recreation, and cultural	2,101,595	2,101,595	1,955,940	145,655
Community development	7,485,309	7,485,309	5,310,156	2,175,153
Debt service:				
Principal retirement	2,768,390	2,768,390	4,316,906	(1,548,516)
Interest and other fiscal charges	1,811,937	1,811,937	1,571,262	240,675
Nondepartmental	1,301,157	1,301,427	1,316,723	(15,296)
Total expenditures	\$ 74,762,516	\$ 75,099,544	\$ 73,653,455	\$ 1,446,089
Excess (deficiency) of revenues over (under) expenditures	\$ 5,667,113	\$ 515,256	\$ (2,263,220)	\$ (2,778,476)
Other financing sources (uses):				
Transfers in	\$ 87,567	\$ 87,567	\$ -	\$ (87,567)
Transfers (out)	(494,811)	(494,811)	(1,112,578)	(617,767)
Total other financing sources (uses)	\$ (407,244)	\$ (407,244)	\$ (1,112,578)	\$ (705,334)
Changes in fund balance	\$ 5,259,869	\$ 108,012	\$ (3,375,798)	\$ (3,483,810)
Fund balances at beginning of year, as restated	(5,259,869)	(108,012)	4,906,293	5,014,305
Fund balances at end of year	\$ -	\$ -	\$ 1,530,495	\$ 1,530,495

ULTIMATE GOAL OF FINANCIAL RECOVERY

To use the experience of the recovery process to become more resistant to financial distress and adaptable to a changing environment.

ROLE OF ELECTED OFFICIALS IN A RECOVERY PROCESS

- **Deliver key messages – describe solutions to public. Set the tone.**
- **Recruit expert citizens – seek out those you serve with special expertise who desire to help with the solution.**
- **Work with the media –put your frame on the situation and be transparent.**
- **Provide input and feedback on recovery strategies – lead your recovery.**

Reference Material And Sources

2017 Annual Report – Auditor of Public Accounts

Link to report: <http://www.apa.virginia.gov/reports/2017AnnualReport.pdf>

Auditor of Public Accounts – Fiscal Distress Monitoring Overview

Link to presentation: http://www.apa.virginia.gov/data/download/local_government/guidelines/Fiscal%20Distress%20Monitoring%20Overview.pdf

Senate Finance Committee Annual Meeting - Overview of Local Fiscal Stress in Virginia

Link to presentation: http://sfc.virginia.gov/pdf/retreat/2017%20Charlottesville/111617_No3_Fiscal_Stress.pdf

Fiscal First Aid and Financial Recovery

By Shayne C. Kavanagh, GFOA

An Elected Official's Guide to Fund Balance and Net Assets

By Stephen J. Gauthier, GFOA

Interpreting Local Governments Financial Statements

By Stephen J. Gauthier, GFOA

Governing Guide to Financial Literacy Series Volume 1 through 4

By The Governing Institute

Elected Official's Guide on Accounting Set: Internal Controls, Pension Accounting and Audit Committees

By GFOA