

Explanation of “Historical Report of Fund Balance and Significant Changes in Debt and Capital Assets”

Presented by:

Pickens County Board of Commissioners

Finance Department

A few months ago the Commissioners asked the Finance Department to compile a Historical Review of Fund Balance from 2004 to 2012. All the information contained in this report was taken directly from annual audited financial statements of Pickens County -- the only exception being the section concerning the millage rate. The report can be found on the County website.

Tonight I'd like to quickly go through and explain the information contained in the report.

Fund Financial Statements

- Prepared using the Modified Accrual basis of accounting
- Revenues are recognized when they become measurable and available
- Expenditures are recognized when the liability is incurred

Fund Financial Statements

The Governmental Accounting Standards Board, also referred to as GASB, requires fund financial statements to be prepared and presented using the modified accrual basis of accounting. Fund Balance is the amount presented on fund financial statements as the difference in assets and liabilities. Using this basis of accounting, revenues are recognized in the period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Government Wide Statements

- Required under GASB 34
- Implemented in 2004
- Prepared using the Full Accrual method of accounting
- Examples:
 - Statement of Net Position
 - Statement of Activities
- Provide a more complete & accurate picture of the County's economic substance
- More comparable to financial statements of Private Sector Business

Because fund financial statements are sometimes hard to understand for readers in the business sector, GASB developed Statement #34, which Pickens County implemented in 2004. This statement requires governmental audits to present government-wide financial statements as well as fund financial statements. Government-wide statements are prepared using the full accrual method of accounting. They provide a more complete and accurate depiction of the county's economic substance and are more comparable to financial statements of private sector businesses.

Fund Balance vs. Available Cash

- Fund Balance does not equal Available Cash
- Includes other components:
 - Receivables
 - Inventories
 - Prepaid Items, etc.
- Decreased \$2,072,318 from 2002-2012
- Cash balance decreased \$3,760,964 from 2002-2012
- In 2006, Fund Balance peaked at \$10,263,536; but Cash Balance was only \$5,767,917
- Pages 5-9 of the Historical Report detail the changes in Fund Balance from 2002-2012

It is very important to note that "fund balance" and "available cash balance" are not the same. Fund balance includes many other components that include receivables, inventories, and prepaid items.

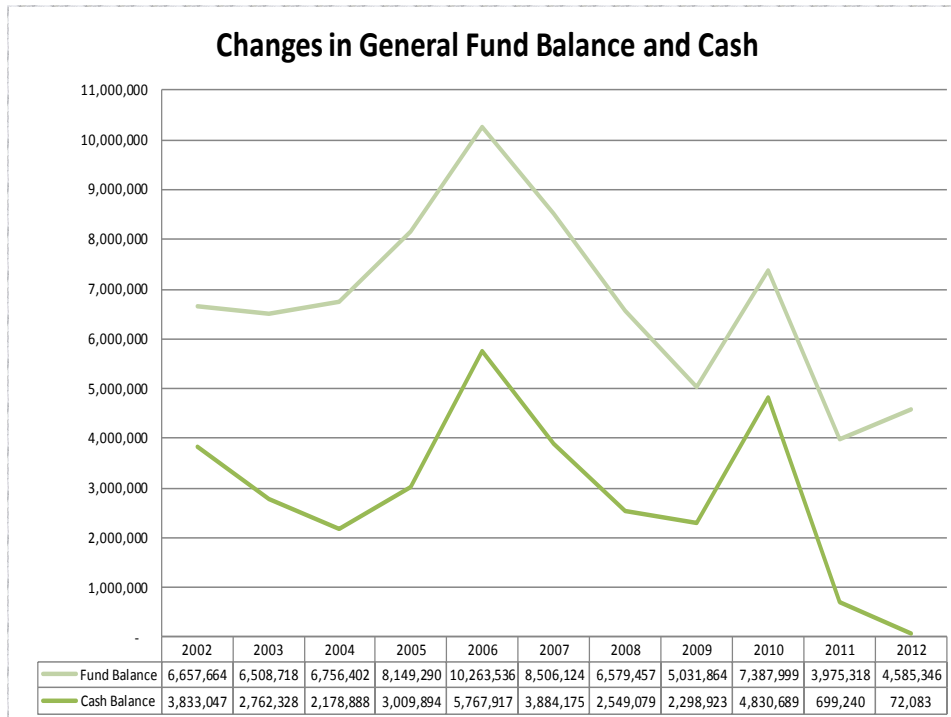
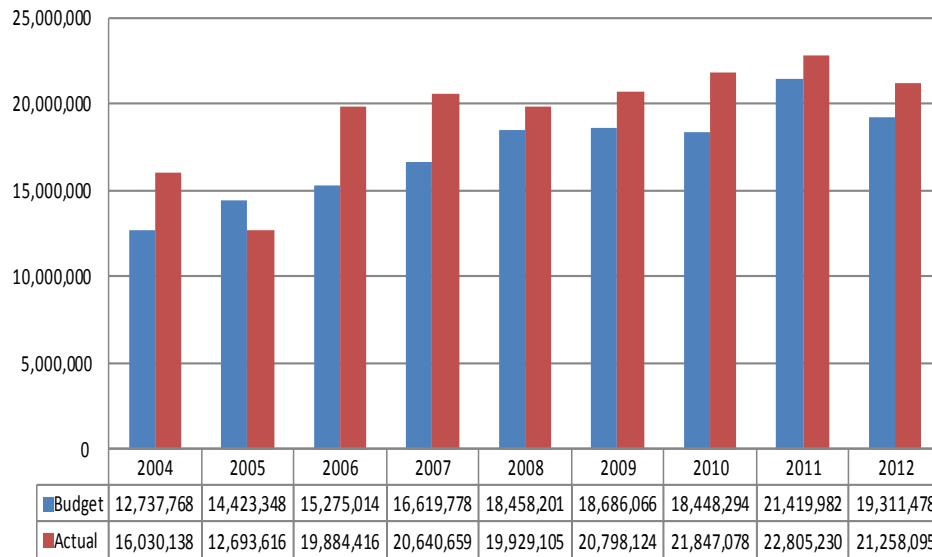


Figure 1: Fund balance decreased by \$2,072,318 from FY 2002 to FY 2012, peaking in 2010 at \$10,263,536. Cash balance at the end of 2002 was \$3,833,047, peaked at \$5,767,917 in 2006 and ended at \$72,083 in FY 2012. (Graph on page 4)

Beginning on Page 5 and continuing through Page 9 of the Historical Report is a detailed account of the change in fund balance from 2002 through 2012. For each year, the total change in fund balance is noted, followed by the various items that account for the increase or decrease in fund balance according to the audited financial statements.

County Wide Expenditures

Budget to Actual Comparison



Budgetary Information:

The primary reason for the changes in fund balance that have happened over the past several years is failure by all departments to operate within their budgetary guidelines.

This graph located on Page 10 of the Report shows budget to actual comparisons for the entire County budget for years 2004 through 2012. The County budget in 2004 was \$12,737,768 compared to \$19,311,478 in 2012. Actual expenditures for the same time period increased from \$16,030,138 to \$21,258,095.

The graphs on Pages 11 through 15 of the report show budget to actual expenditure comparisons for each elected official and the Public Defender who is not elected but appointed.

On page 11, the County Commission amount includes all budgets which are not under the administration of other elected officials, such as the

road department, solid waste, fire department and EMS, planning and development, and tax assessors.

County wide revenue has shown growth over the years as well. Total revenue in 2004 was \$14,525,751 and revenues increased to \$20,681,716 in 2012.

Summary of Changes in Expenditures
FY 2005- FY 2006

| | |
|---------------------------------------|-------------------------------|
| Capital Outlay - Buildings | \$ 3,086,803.68 |
| Capital Outlay - Roads | \$ 240,287.03 |
| Capital Outlay - Vehicles | \$ 191,698.67 |
| Salaries & Overtime | \$ 1,578,817.16 |
| Benefits | \$ 445,114.51 |
| Intergovernmental | \$ 705,472.64 |
| Debt Service | \$ 835,379.45 |
| Other Generals Operating Expense | \$ 107,226.86 |
| Total Change from 2005 to 2006 | <u>\$ 7,190,800.00</u> |

We had one question from a citizen concerning the report. We were asked to explain the increase in actual expenditures of \$7,190,800 from 2005 to 2006. The following slides provide the explanation that was given concerning that request.

Explanation of Increases:

Increases (Decreases) in Capital Outlay

| | Capital Outlay <u>Buildings</u> | Capital Outlay <u>Roads</u> | Capital Outlay <u>Vehicles</u> |
|-----------------------|------------------------------------|--------------------------------|-----------------------------------|
| General Government | 3,091,148.87 | - | 10,474.16 |
| Judicial | - | - | (12,654.98) |
| Public Safety | - | - | (4,081.96) |
| Public Works | (4,345.19) | 240,287.03 | 126,035.76 |
| Health & Welfare | - | - | 632.50 |
| Culture & Recreation | - | - | 1,845.16 |
| Housing & Development | - | - | 69,448.03 |
| | 3,086,803.68 | 240,287.03 | 191,698.67 |

Increases (Decreases) in Salaries, Overtime, Benefits, and Taxes

| | A | B | A+B | C |
|-----------------------|-----------------|-----------------|----------------------------------|-------------------------------|
| | <u>Salaries</u> | <u>Overtime</u> | <u>Salaries and Overtime</u> | <u>Benefits and Taxes</u> |
| General Government | 116,052.72 | 1,123.68 | 117,176.40 | 41,612.72 |
| Judicial | 206,382.51 | - | 206,382.51 | 42,050.12 |
| Public Safety | 863,241.93 | 232,227.92 | 1,095,469.85 | 279,518.30 |
| Public Works | 79,242.05 | 4,292.46 | 83,534.51 | 56,041.06 |
| Health & Welfare | 17.63 | - | 17.63 | (3.86) |
| Culture & Recreation | 13,997.93 | - | 13,997.93 | 6,277.07 |
| Housing & Development | 61,972.63 | 265.70 | 62,238.33 | 19,619.10 |
| | 1,340,907.40 | 237,909.76 | 1,578,817.16 | 445,114.51 |

Increases (Decreases) to Salaries and Overtime

| | | | |
|------------------------------|-------------------|-----------------------------------|---------------------|
| General Gov: | | Public Safety: | |
| Commission and support staff | \$ 62,457 | Sheriff | \$ 580,353 |
| Elections | \$ 21,680 | APPP - Adult Probation | \$ 229,605 |
| Tax Commissioner | \$ 13,259 | Fire | \$ 25,058 |
| Tax Assessors | \$ 19,780 | EMS | \$ 248,593 |
| | | Coroner | \$ 11,861 |
| | \$ 117,176 | | \$ 1,095,470 |
| Judicial: | | Public Works: | |
| Superior Court | \$ 30,606 | Roads & Mtc. Shop | \$ 43,748 |
| Clerk of Court | \$ 55,956 | Solid Waste | \$ 39,786 |
| District Attorney | \$ (8,330) | | \$ 83,534 |
| Magistrate Court | \$ 11,069 | | |
| Probate Court | \$ 10,760 | Recreation: | \$ 13,998 |
| Juvenile Court | \$ 110,209 | Planning & Development | \$ 62,238 |
| Public Defender | \$ (3,869) | | |
| | \$ 206,401 | Total Increase | \$ 1,578,817 |

Increases (Decreases) in Intergovernmental, Debt Service, and Other Operating Expenditures

| | <u>Intergovernmental</u> | <u>Debt Service</u> | <u>Other General Operating Expenses</u> |
|-----------------------|--------------------------|----------------------|---|
| General Government | \$ (14,109.82) | \$ 831,746.05 | \$ 164,381.12 |
| Judicial | \$ 114,058.86 | \$ - | \$ (64,394.81) |
| Public Safety | \$ 583,271.70 | \$ (47.55) | \$ 198,798.88 |
| Public Works | \$ (7,568.75) | \$ 3,680.95 | \$ (229,612.74) |
| Health & Welfare | \$ 12,542.06 | | \$ 2,884.23 |
| Culture & Recreation | \$ 16,926.26 | | \$ 9,260.94 |
| Housing & Development | \$ 352.33 | | \$ 25,909.24 |
| | \$ 705,472.64 | \$ 835,379.45 | \$ 107,226.86 |

Fund Balance and Millage Rates

- Cash reserves can be used to offset excess expenditures rather than increasing millage rates
- Millage rate increases would have been required in 2007, 2008, 2009, and 2011
- The County elected to use fund balance rather than increase taxes in tough economic times

Page 16: Use of Fund Balance vs. Millage Rate Dependency

In years that expenditures exceed revenue, the County has the option to either deplete fund balance or increase the millage rate which increases the taxes paid by property owners.

The County elected to use fund balance rather than increase taxes in tough economic times.

Projected Millage Rates Necessary to Maintain Fund Balance

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|------|-------------------------------|------------------|--------------------------------|---------------------|---|-----------------------------|
| Year | Change in Ending Fund Balance | Net M & O Digest | Add'l Revenue per Mil [3/1000] | Actual Millage Rate | Necessary Millage Increase to Avert Loss of Fund Balance (Non Cumulative) [2/4] | Adjusted Millage Rate [5+6] |
| 2004 | 247,684 | 996,070,294 | 996,070 | 5.910 | 0.000 | 5.910 |
| 2005 | 1,392,888 | 1,126,876,314 | 1,126,876 | 6.160 | 0.000 | 6.160 |
| 2006 | 2,114,246 | 1,222,999,756 | 1,223,000 | 6.260 | 0.000 | 6.260 |
| 2007 | (1,757,412) | 1,343,987,686 | 1,343,988 | 6.133 | 1.308 | 7.441 |
| 2008 | (1,926,667) | 1,476,549,137 | 1,476,549 | 5.895 | 1.305 | 7.200 |
| 2009 | (1,547,593) | 1,484,889,068 | 1,484,889 | 6.260 | 1.042 | 7.302 |
| 2010 | 2,356,135 | 1,459,026,930 | 1,459,027 | 6.260 | 0.000 | 6.260 |
| 2011 | (3,412,681) | 1,446,629,187 | 1,446,629 | 6.260 | 2.359 | 8.619 |
| 2012 | 610,028 | 1,407,930,086 | 1,407,930 | 6.650 | 0.000 | 6.650 |

This table shows the years in which the ending fund balance declined and the amount of increase in millage rate it would have required to accommodate that deficit.

In 2007, the millage rate actually decreased from 6.26 to 6.133; if the millage rate had been adjusted to cover expenditures instead of using fund balance, the millage rate would have been increased to 7.441.

As you can see, a similar millage rate adjustment could have been imposed in 2008, 2009, and 2011.

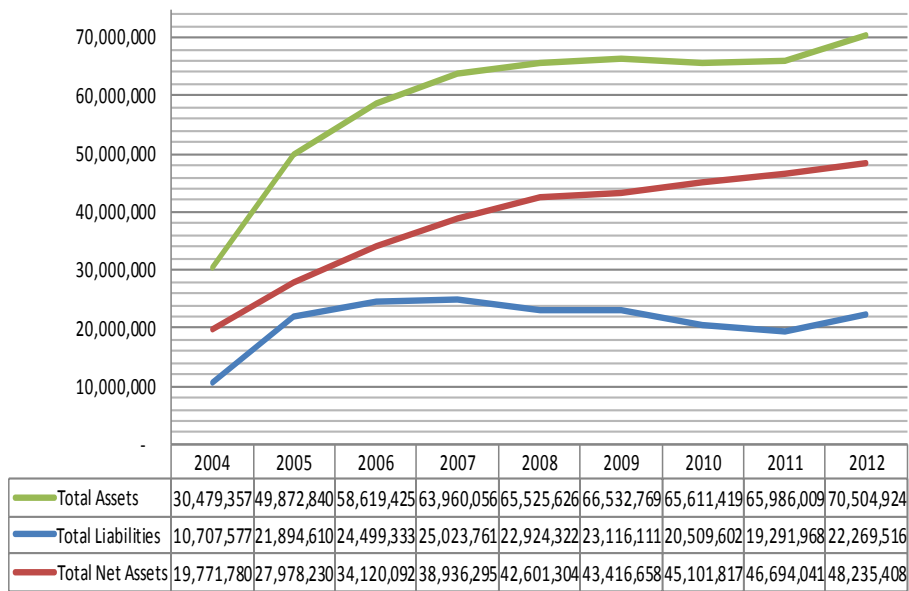
Debt History

- Total Assets:
 - \$30,479,357 in 2004
 - \$70,504,924 in 2012
- In 2012, the County's total liabilities show almost a \$3 million decrease since their peak in 2007
- Total Net Assets:
 - \$19,771,780 in 2004
 - \$48,235,408 in 2012

Page 16: Debt History

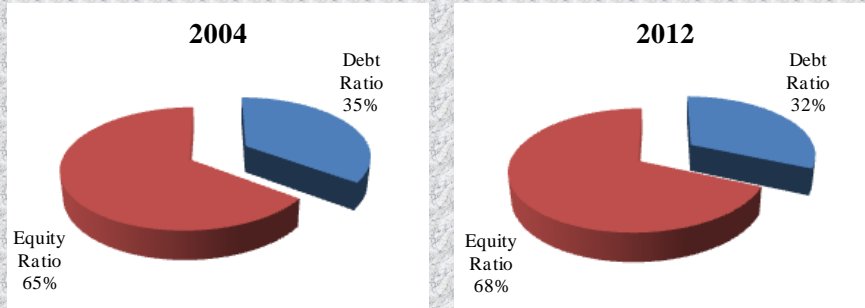
In the audited financial statements, amounts related to debt are now presented in the government-wide statements under the full accrual method as required by GASB 34, which was implemented in Pickens County in 2004.

Changes in Assets, Liabilities, and Net Assets



This graph on page 17 of report depicts Pickens County's total assets, total liabilities and total net assets for the years 2004 through 2012. The County's total liabilities in FY 2012 have decreased almost \$3 million since FY 2007, while total assets reached a maximum level of \$70 million in 2012.

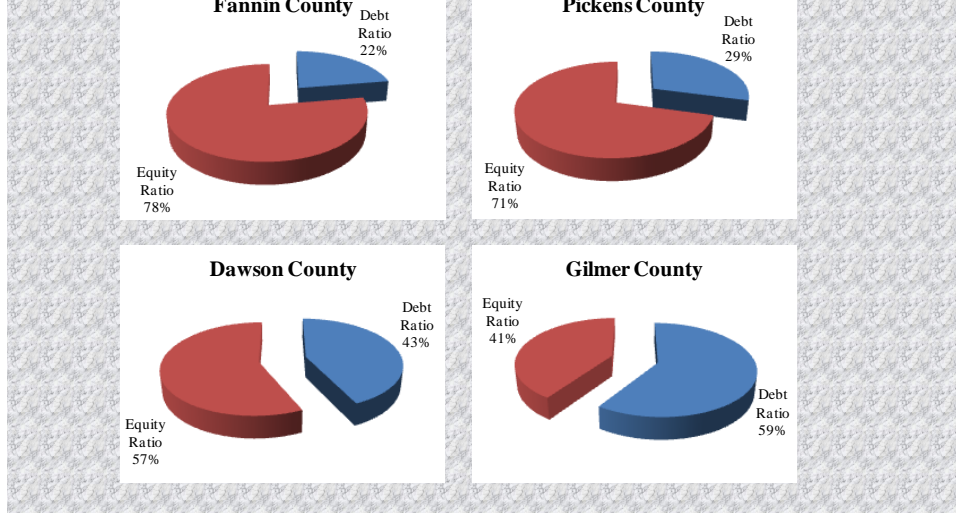
Pickens County Debt and Equity Ratios



- Debt and Equity ratios of Pickens County are small compared to Dawson and Gilmer Counties
- Debt and Equity ratios of Pickens and surrounding counties reflect 12/31/2011 audit numbers

These 2 pie charts reflect the debt to equity ratio of Pickens County from 2004 vs. 2012. Lower debt ratios and higher equity ratios indicate that the County has used equity to finance capital projects and infrastructure rather than taking on new debt. (Graph-top of Page 18)

Debt and Equity Ratios of Pickens and Surrounding Counties



These 4 pie charts reflect the debt to equity ratios of surrounding counties as compared to Pickens County for the year ending 12/31/2011. (We used 2011 figures because at the time we compiled the report Gilmer County's 2012 audited numbers were not available) As you can see, Pickens County's debt ratio is relatively small compared to Dawson and Gilmer Counties. (Graph at bottom of Page 18)

Page 19 and 20 of the report provides a year by year analysis of new debt incurred by Pickens County in the form of capital leases, revenue bonds and long term notes payable.

Tax Anticipation Notes (TAN)

- Short-term borrowings for cash flow purposes
- Must be repaid by December 31st of each year
- Normally repaid at the end of the year with property tax collections
- Pickens County used TANs from 2004 to 2005 and from 2008 to the present

Page 20: Tax Anticipation Notes (TANs)

Tax Anticipation Notes are short-term borrowings used by municipalities when cash reserves are not sufficient to fund operating expenses throughout the year. TANs are normally originated on January 1 or shortly thereafter and must be repaid by December 31. Because a TAN exists within the bounds of the fiscal year, it has no effect on the year-to-year net position of the County other than the interest expense incurred.

Due to the timing of property tax collections, the majority of the County's revenue is collected at the end of the year.

TAN Use by Pickens County

| Year | Original Note Amount | Principal | Interest Rate | Interest Expense |
|------|-------------------------|-------------|------------------|---------------------|
| 2002 | N/A | N/A | N/A | N/A |
| 2003 | N/A | N/A | N/A | N/A |
| 2004 | \$1,000,000 | \$1,000,000 | 2.95% | Not Noted* |
| 2005 | \$1,750,000 | \$1,000,000 | 3.84% | Not Noted* |
| 2006 | N/A | N/A | N/A | N/A |
| 2007 | N/A | N/A | N/A | N/A |
| 2008 | \$1,500,000 | \$1,500,000 | 3.66% | \$12,453 |
| 2009 | \$3,500,500 | \$3,500,500 | 3.60% | \$56,886 |
| 2010 | \$4,500,000 | \$4,500,000 | 1.16% | \$44,225 |
| 2011 | \$5,000,000 | \$5,000,000 | 1.24% | \$55,456 |
| 2012 | \$6,000,000 | \$6,000,000 | 1.40% | \$79,567 |

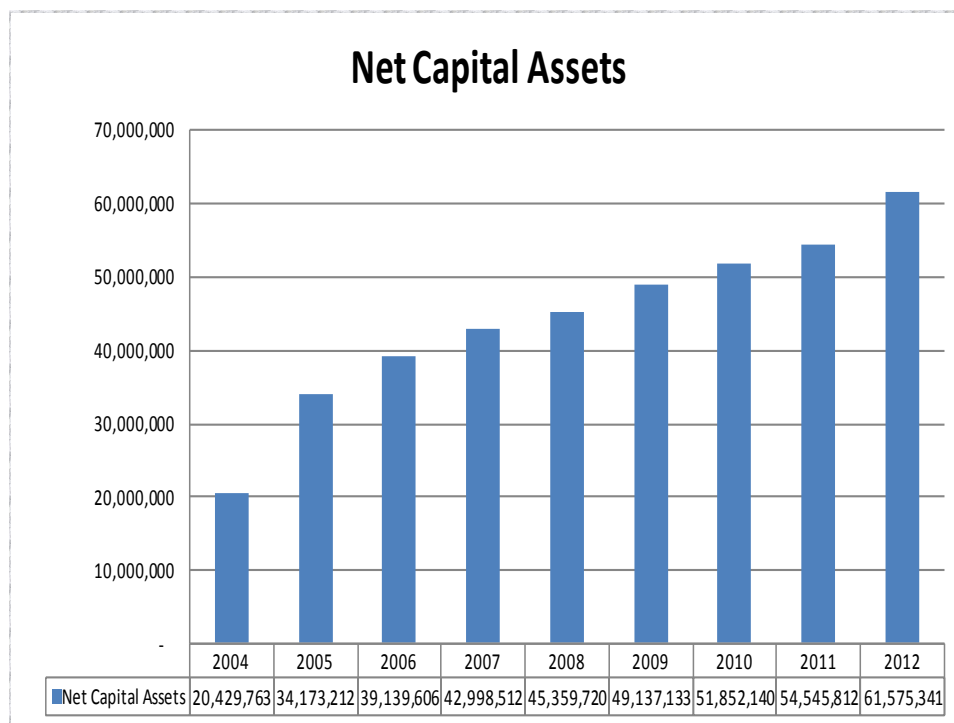
This table shows the years that TAN borrowing has been used by Pickens County and the amount of the TAN for each year. (Page 20 of report)

Capital Assets

- Since 2004 Pickens County has made numerous investments in Capital Assets
- Net Capital Assets – the historical cost of capital assets less accumulated depreciation
- Net Capital Assets:
 - \$20,429,763 in 2004
 - \$61,575,341 in 2012

Capital Assets

Since 2004, Pickens County has made numerous investments in capital assets. Capital assets are items such as land, buildings, vehicles, machinery and equipment that are used in operations and have useful lives extending beyond a single reporting period. The term NET capital refers to the historical cost of capital assets less accumulated depreciation.



Net capital assets in 2004 = \$20,429,763 and increased to \$61,575,341 in 2012. (Chart - Page 22 of report)

Next Steps

1. Team Effort – Involve all Elected Officials
2. Formulate a VISION for the Future
3. Create a Strategic Plan
4. Establish Goals and Benchmarks
5. Follow through and MAKE IT HAPPEN!!!

In closing, I realize there are portions of this report that are not pretty -- budgets were ignored at times, and available cash was used to fund the overages.

I believe that with budgetary discipline, we can get the County's cash reserves back to a level so that we no longer rely on TAN borrowing.

These are the steps that will get us there!

- 1: Involve all elected officials
- 2: Formulate a VISION for the future
- 3: Develop a strategic plan
- 4: Set goals and benchmarks
- 5: Follow through and MAKE IT HAPPEN

For More Information

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