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CB1



## Effective Financial Management

Best Practices for Budgeting and Reporting

MFOCTA/BLOA Joint Academy  
October 10, 2024

Naomi Reed Field Services Manager

@muniassnc | www.masc.sc



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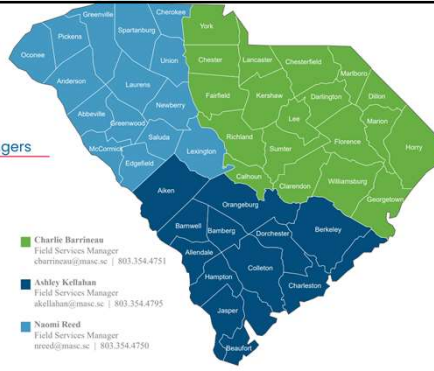
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Municipal Association of South Carolina  
Field Services Managers

- Charlotte Barrisena  
Field Services Manager  
cbarrisena@masc.sc | 803.354.4751
- Ashley Kellahan  
Field Services Manager  
akellahan@masc.sc | 803.354.4795
- Naomi Reed  
Field Services Manager  
nreed@masc.sc | 803.354.4750



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## Pillars of Civility

**Civility.**  
**Respect.**  
**Solutions.**

MASC Municipal Association of South Carolina

Be as eager to listen as to speak.	Concentrate on what you have in common, not what separates you.	Act as you would expect someone to act in your home.
Make your case on merits, not on what people want to hear.	Your time is valuable. So is everyone else's. Respect it.	Ask questions to learn. Answer questions with respect.
Concentrate on facts, not theories.	Ask "what will persuade people in this room?" not "what will make a great tweet?"	Make your point about the issue, not the person.



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**Slide 1**

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**CB1**

Charlie Barrineau, 1/5/2024

**Agenda**

- Welcome
- Why Financial Management Matters
- Budgeting Strategies and Best Practices
- Reporting Strategies and Best Practices
- Common Pitfalls
- Q&A



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**Effective Financial Management  
Budgeting Strategies  
&  
Best Practices**

Naomi Reed  
Field Services Manager



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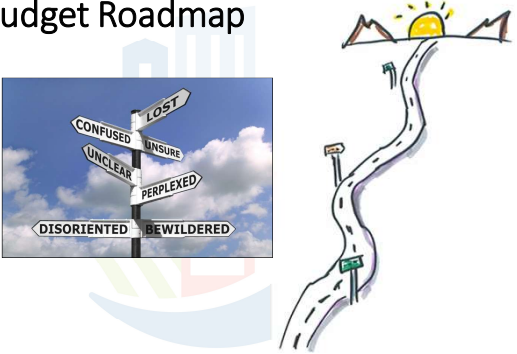
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**Budget Roadmap**



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## Annual Budget – Legal Requirements

- Municipalities must adopt balanced budgets. *Article X, Section 7(b) - S.C. Constitution*
- No expenditures unless authorized by the budget ordinance or by Council via a subsequent resolution. *Article X, Section 8 - S.C. Constitution*
- Local code may provide discretion for shifting appropriations during fiscal year to achieve the goals of the budget



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## Who Prepares The Budget?

Responsibility for budget preparation varies among the forms of government:

<u>Form of Government</u>	<u>Responsible Party</u>
Council-Manager	Manager
Mayor-Council	Mayor
Council	Council discretion



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## Fiscal Management: Council's Responsibility

- Responsible for overall financial management of the municipality unless specifically delegated elsewhere by law. Section 5-7-160
- Must develop and maintain budget enforcement standards.
- Approves borrowing and other financing options, including financing capital improvements.



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### Fiscal Management: Council's Responsibility

- Ultimately responsible for establishment and utilization of financial reporting systems and standards
- Establishes policies for the investment and management of cash assets
- Selects / approves CPA or independent public accountant to perform annual independent audit



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### Fiscal Management: Council's Responsibilities

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### Establishing the Budget Process

- Cities and Towns set their fiscal year by ordinance
- Fiscal years may vary
- All municipalities basically have the same budget process.
- The complexity, formality and number of people involved tends to vary based on size.



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## Establishing the Budget Process

Goal Setting for the coming year / Strategic Plan Update

This is ideally done prior to the completion of the expenditure request and review process

Also, set some parameters for staff to make requests

Thought should be given to major projects, initiatives and service / service delivery changes




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Month	Key Dates and Events
January	Pre-Budget Items: 50-year Capital Budget updated and distributed to Department Heads.
January	Budget request forms are prepared and distributed to Department Heads. Finance staff completes personnel and fringe benefit numbers. Finance staff completes Proposed Revenue numbers. City Administrator develops and distributes the Budget Guidance document. Council review: 18 resolution goals and budget directives for staff.
February	Feb. 6: Budget requests due to Finance Director Feb. 7-24: Budget is reviewed and revised as needed. Any changes are processed and entered by Finance staff.
March	March 5-15: Council budget notebooks are produced and distributed by the Finance Department. March 19: Budget Workshops with Council and staff. March 30: Budget Workshops with Council and staff.
April	April 3-7: Budget resolutions are prepared. Budget Act is prepared. April 24: Budget Act is submitted to newspaper. April 27: Budget Workshops with Council and staff. Ad is circulated in the Greenville News.
May	May 15: Public Hearing and first reading on the proposed Budget Ordinance.
June	June 19: Second reading and Adoption on the proposed Budget Ordinance.
July	July 1: New fiscal year begins; adopted budget now in effect.

- Creates Transparency
- Sets Level of Responsibility
- Try to Stick to the Schedule

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## The Budget Cycle

There are four stages of the budget cycle:

- Preparation
- Adoption
- Implementation
- Review




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## Budget Preparation




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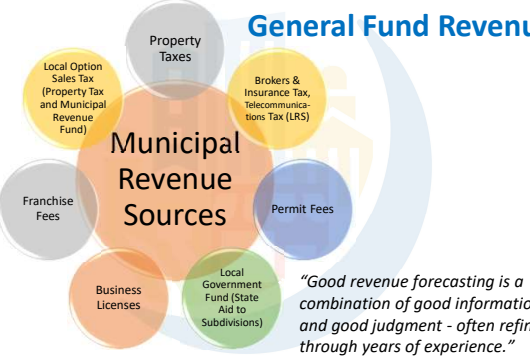
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## General Fund Revenue



**Municipal Revenue Sources**

*“Good revenue forecasting is a combination of good information and good judgment - often refined through years of experience.”*




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## Budget Prep: Projecting Revenue

### Projecting Revenue:

- Historical Trends
- Expected changes to revenues
  - New construction / Development Activity
  - Business openings and closings
  - Automobile tax base
  - Investment yields
  - Projected impact of weather on water, sewer and electric sales
- Potential new revenue from tax, fee or charge increases



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## Budget Prep: Projecting Revenue

### Projecting Property Tax Revenue:

- The initial assessment from the county will be inaccurate due to timing
- Calculate expected tax revenue after adjusting the initial assessment
- New construction may not make the tax rolls
- Council sets property tax rate, not county auditor



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## Budget Prep: Projecting Revenue

### Property Tax Increases (Section 6-1-320):

- Act 388 (2006) limits an increase in the operating millage of a city and county to no greater than:
  - The percentage increase in population of the city/county during the preceding year as estimated by S.C. Revenue and Fiscal Affairs, and
  - The percentage increase in the average of the 12-monthly consumer price indices (CPI) during the preceding year
- If the CPI is negative and/or if the population of the city/county is estimated to have decreased, then the percentage(s) used for calculating the millage limitation is equal to zero



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## Budget Prep: Projecting Revenue

### Property Tax Increases (Section 6-1-320):

Act 57 (2011) permits an additional increase not exceeding unused portion of the percentage increase permitted by Act 388 for the three preceding years.

- Referred to as the "three year look back"
- Also known as a local government's "millage bank"
- Maintain a spreadsheet to track your city's "millage bank balance"
- Referencing the "look back" and the balance in your "millage bank" in an article of the budget ordinance is a recommended practice
- Always work from the earliest year in the "three year look back" to present when debiting your "millage bank"



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## Budget Prep: Projecting Revenue

### Property Tax Increases (Section 6-1-320):

The limitation, or "cap", provided in Act 388 does not affect millage that is levied to pay:

- Bonded indebtedness
- Payments for real property acquisition using a lease purchase agreement
- Maintain a reserve account



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## Budget Prep: Projecting Revenue

### Projecting Other Revenue Sources:

- ✓ Local Option Sales Tax
- ✓ Business License
- ✓ Local Hospitality Tax
- ✓ Local Accommodations Tax
- ✓ Fines and Forfeitures (retained by the municipality)
- ✓ Fees (Sanitation, Public Works, etc.)
- ✓ Charges (water, sewer, electric, etc.)



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## Budget Prep: Projecting Revenue

### Imposing a new fee (Section 6-1-330):

Must provide notice of the new fee and hold a public hearing that allows for public comment prior to adopting an ordinance enacting the fee

If fee generates 5% or more of prior year budget total, funds from fee must be segregated

Must disclose if the fee is going to fund a service that was previously funded by property taxes



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## Budget Prep: Estimating Expenditures

### What is an Expenditure?

The amount of cash paid for a service rendered, goods received, or an asset purchased

There are three main categories of expenditures (usually presented by department):

- Personnel (Salaries, benefits)
- Operating (Office supplies, utilities, contracts)
- Capital (IT Hardware, rolling stock, infrastructure)



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## Budget Prep: Estimating Expenditures

### Estimating Expenditures:

Utilize year-to-date performance (mid-year financial statements)

Audits from previous years

Any known increases, such as

- Insurance premiums
- Utility rates
- Scheduled increases in contracts
- Forecasts such as the EIA's Short-Term Energy Outlook

New activities or programs



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## Budget Prep: Estimating Expenditures

### Personnel (usually the largest category):

- Detailed list of staff and salaries
- Any proposed cost of living adjustments or merit pay increases
- Overtime, callback, training and holiday pay
- Allowances for vacancies, increases for certifications, etc.
- Health insurance – employer share
- Retirement contributions – employer share
- Workers' Compensation Premiums
- Payroll Taxes (Employer share Social Security, Medicare and state)
- Unemployment



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## Budget Prep: Estimating Expenditures

### Operating (Non-personnel):

- Office supplies, printing, postage
- Tools and small equipment purchases and repairs
- Employee training & travel
- Safety training and supplies
- Gasoline and Diesel
- Utilities and telecommunication
- General Liability Insurance (Property, Auto, Liability)
- Professional & contract services, leases, etc.
- Debt service



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## Budget Prep: Estimating Expenditures

### Capital:

- Machines, equipment and vehicles
- Buildings, parking and recreation facilities
- Infrastructure

Expenditures are classified as capital exp based on capitalization thresholds and the asset(s) they are replacing, enhancing or upgrading (when in doubt, ask auditor).

They may be funded with recurring or nonrecurring revenue or debt proceeds.

Forecast capital expenditures in your CIP



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**Adoption**




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**Adopting the Budget**

Annual budget must be adopted by ordinance with the necessary number of readings as required by local code. *Section 5-7-260.*

Budget ordinance sets/provides:

- Property Tax (Millage) Rate
- Appropriation Levels
- Procedure for Amendment and Administration of the Budget
- Debt Proceeds and Debt Service
- Short-term Borrowing
- Elected Official Compensation (or by stand-alone ordinance)




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**Adopting the Budget**

A public hearing must be held before adopting the budget. *Section 6-1-80.*

May be held in conjunction with first or second reading of the budget ordinance, or at an isolated date/time.

Public notice of the hearing must be published in a newspaper of general circulation.

**Notice must be given at least 15 days before the public hearing.**




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## Adopting the Budget

**The public hearing notice must contain:**

- Name of the local government
- Date, time and location of the hearing
- Total operating revenues and expenditures in current fiscal year budget
- Projected operating revenues and expenditures of next year's budget
- The percentage change
- Millage for the current fiscal year
- Estimated millage in dollars as necessary for next year's budget




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- Before adoption of a budget ordinance **Sec. 5-7-260**, state law requires:
  - Advertisement *Follow exactly!* **Sec. 6-1-80**
  - Public hearing

**Public Notice**  
hearing on municipal budget

Pursuant to Section 6-1-80 of the S.C. Code of Laws, public notice is hereby given that the council for the (Town/City) of \_\_\_\_\_ will hold a public hearing on the municipal budget for the \_\_\_\_\_ fiscal year on \_\_\_\_\_ (date) at \_\_\_\_\_ (time) \_\_\_\_\_ (place).

Current Fiscal Year Revenue	Projected Revenue XXXX-XXXX	Percentage Change in Revenue	Current Fiscal Year Millage
\$ _____	\$ _____	% _____	\$ _____ Mills

Current Fiscal Year Expenditures	Projected Expenditures XXXX-XXXX	Percentage Change in Expenditures	Estimated Millage for XXXX-XXXX
\$ _____	\$ _____	% _____	\$ _____ Mills*

\*Estimated Millage Equals \$ \_\_\_\_\_ per \$1000 of Assessed Property Value




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## Sample Public Hearing Notice

**PUBLIC NOTICE**

Pursuant to Section 6-1-80 of the S.C. Code of Laws, public notice is hereby given that Elgin Town Council will hold a public hearing on the municipal budget for the 2023-2024 fiscal year:

Date: June 6, 2023  
 Time: 6:00 p.m.  
 Location: Elgin Town Hall, 2409 Main Street

Current Fiscal Year Revenue	Projected Revenue 2023-2024	Percentage Change in Revenue	Current Fiscal Year Millage
\$1,339,905	\$1,612,836	18.59917%	27 mills

Current Fiscal Year Expenditures	Projected Expenditures 2023-2024	Percentage Change in Expenditures	Estimated Millage for 2023-2024
\$1,339,905	\$1,612,836	18.59917%	27 mills




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**Review**



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**Effective Financial Management  
Financial Reporting Strategies  
&  
Best Practices**

Charlie Barrineau  
Field Services Manager



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**Financial Controls and Reporting**

**Key elements of cash flow management:**

- Be very familiar with the municipality's cash flow patterns.
- Have knowledge of the legal authority that grants investment practices.
- Evaluate the past, present, and future cash flow trends.
- Develop good relationships with the municipality's banking institutions.
- Be familiar with investment markets and invest cash timely and wisely.
- Have a good, accurate accounting system.
- Prepare and analyze cash flow projections regularly.



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## Financial Controls and Reporting

### Keys to effective financial reporting

- good account structure
- effective internal controls
- computerized accounting system

Governmental accounting transactions should be recognized on either an accrual basis or modified accrual basis.

However, results are reported on an accrual basis.

The presentation of regular (monthly) financial reports, comparing actual to budget and current to previous year, to council is important.

Reporting by fund is required.



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## Financial Controls and Reporting

### Fund Accounting:

An accounting system emphasizing *accountability* rather than *profitability*, used by state and local governments.

Governments have special requirements to show, in financial statements, how money is spent, rather than how much profit was earned.

Unlike profit oriented businesses, which use a single general ledger, cities can have more than one general ledger (or fund), depending on their financial reporting requirements.



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## Financial Controls and Reporting

### Fund Accounting:

**Fund:** a self-balancing set of accounts, segregated for specific purposes in accordance with laws, regulations, special restrictions and/or limitations.

A city must be able to produce reports that:

- detail the expenditures and revenues for each individual fund (**fund statements**)
- summarize financial activities across all of its funds (**government wide statements**)

There are three broad categories of funds.



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## Financial Controls and Reporting

**Governmental Funds:** are used to account for most typical governmental functions (public safety, streets and sanitation, parks and rec, and admin)

**Proprietary Funds:** are used to account for a government's business type activities. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis.

**Fiduciary Funds:** are used to account for assets held in trust by the government for the benefit of individuals or other entities. SC's employee pension funds, the S.C. Retirement System, are examples of fiduciary funds.



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## Financial Controls and Reporting

### Governmental Funds

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

### Proprietary Funds

- Enterprise
- Internal Service



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## Special Funds



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## Financial Controls and Reporting

### Regular Financial Statements:

Compare actual results to budget on a regular, preferably monthly, basis

Present to and review with City Council with same frequency

**Council is ultimately responsible** for ensuring that monthly reports are prepared and that the information is accurate.

Monitor department expenditures by using monthly reports, general ledger and, when necessary, general ledger transaction reports



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## Financial Controls and Reporting

### Independent Audit:

Independent annual audit is required under *Section 5-7-240*.

Council must accept and review the audit annually

Must be made available for public inspection.



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## Financial Controls and Reporting

**Independent Audit:**

Must submit annual audit to State Treasurer by thirteenth month of fiscal year end (Sec. 6-1-50) or state funds will be withheld

Must submit annual Local Government Report to the State Treasurer's Office along with a copy of the annual audit, by March 15<sup>th</sup>.

Submit annual audit to creditors, banking institution, and all other agencies that require continuing disclosures

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## Financial Controls and Reporting

**Independent Audit:**

The auditor must be selected within 30 days of the beginning of the fiscal year (Section 5-7-240).

Auditors should be appointed for no more than 4 year terms and should be rotated.

The council may or may not use competitive bids to select their auditor, and there is no limit to the number of terms the council appoints the same auditor to.

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## Financial Controls and Reporting

### Did You Know?

Passed in 2023, Act 71 allows cities and towns with less than \$500,000 in total recurring revenues the option of providing a compilation of financial statements instead of a full audit.



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## Financial Controls and Reporting

Effective for the municipal fiscal year beginning after January 1, 2024, cities and towns with total recurring revenues less than \$500,000 may provide either an audit of financial statements or a compilation of financial statements in lieu of an audit as follows:

- Annually for municipalities that have a court system\*; or
- At least once every three years for municipalities that do not have a court system.



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## Financial Controls and Reporting

### What Auditors Do:

Engaged to render an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Provides users (the public, creditors and bond holders) with an enhanced degree of confidence in the financial statements.

Expresses an opinion on whether the financial statements are free of material misstatement, whether due to fraud or error.

Auditor gathers appropriate and sufficient evidence and observes, tests, compares and confirms until gaining reasonable assurance.



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## Financial Controls and Reporting

### What Auditors Don't Do:

Auditors do not take responsibility for the financial statements on which they form an opinion.

Responsibility for financial statement presentation lies squarely in the hands of the entity being audited.

Auditors are not a part of management.

Auditors are not able to report with certainty that fraud has not occurred.



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## Financial Controls and Reporting

### The Audit Equation:

Is the balance between auditing and bookkeeping.

Staff needs to enter basic accounting data, reconcile bank statements and prepare the financial statements.

If staff fails to do the bookkeeping, then an accountant must be engaged to prepare the financial statements for the audit.

Result: the total cost of the annual audit increases.

Auditors cannot prepare statements because it impairs the auditor's independence and prevents the issuance of an opinion.



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## Annual Budget and Financial Reporting Requirements

- ✓ Annual budget adopted by ordinance after a public hearing
- ✓ Newspaper notice minimum 15 days in advance of public hearing
- ✓ Complete independent financial audit
- ✓ Submit annual Local Government Finance Report
- ✓ Penalties for non-compliance



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**Resources**

**Government Finance Officers Association (GFOA)**

[www.gfoa.org](http://www.gfoa.org)

**International City-County Management Association (ICMA)**

[www.icma.org](http://www.icma.org)

**Municipal Association of South Carolina**

[www.masc.sc](http://www.masc.sc)



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