

FINANCE DEPARTMENT

GOALS / PURPOSE

The Finance Department is an integral component of the administrative structure of the City of Morgantown, rendering services in a staff capacity to the other City administrative and operating departments. In addition to providing timely management reports and information to internal users, Finance Department staff is also responsible for the external financial reporting function of the City of Morgantown and its agencies.

The principal focus of the Finance Department staff is to render professional and courteous service to the citizens and taxpayers of Morgantown. As the Finance Department is often the primary contact a resident or business taxpayer has with City personnel, the staff strives to make it a positive experience, while ensuring that all aspects of the City's financial administration are performed in an efficient and equitable manner.

CURRENT PROGRAMS / SERVICES

Finance Department staff is responsible for the collection of all revenue for the various funds of the City of Morgantown, which include the General Fund, the operating fund of city government, eleven special revenue funds, three capital improvement funds, three pension trust funds, and three enterprise funds - Airport, Parking Authority, and Building Commission. In addition, the Department is also responsible for all disbursements made from these funds, including payroll for all employees and retirees, as well as the overall general ledger accounting functions.

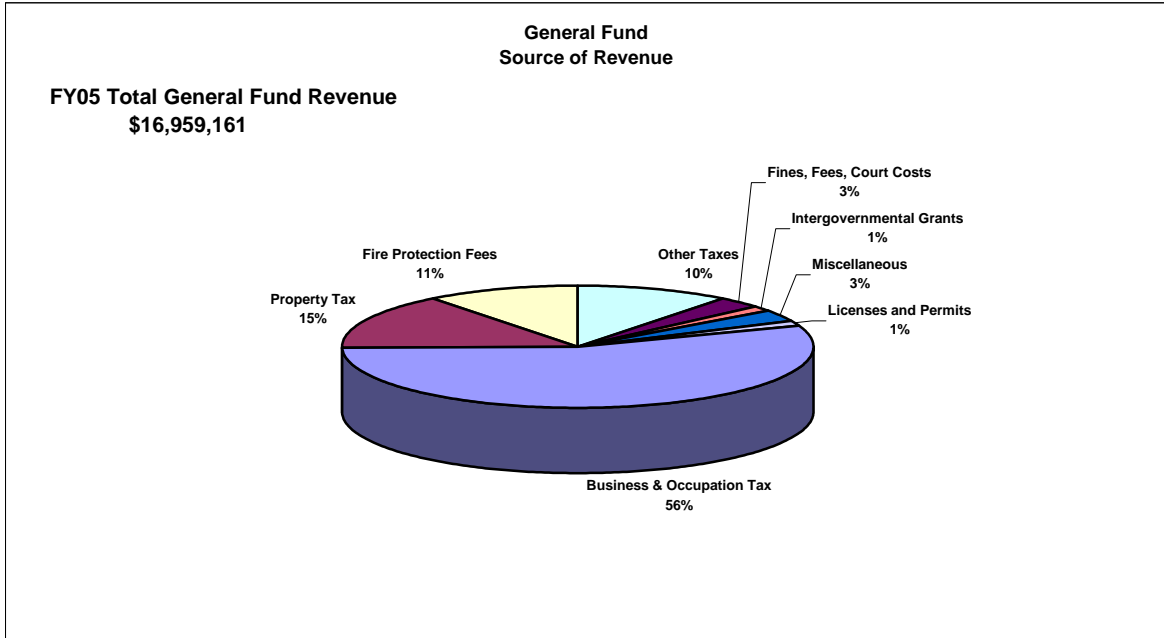
The accounting functions of the Board of Parks and Recreation Commissioners Fund (BOPARC) are also under the supervision of the Finance Director, with the Finance Director attending all BOPARC meetings and presenting the monthly financial reports to the Board. The Finance Director also works closely with BOPARC administrative staff in the formulation and monitoring of BOPARC's annual operating budget.

Along with the many duties and responsibilities related to providing the various financial and accounting functions, the Finance Director also oversees the risk management and insurance programs for the City and its agencies, including BOPARC and the Library. In addition, the Finance Director also coordinates the annual audit of the City's financial statements, which include the Morgantown Public Library and the funds previously listed.

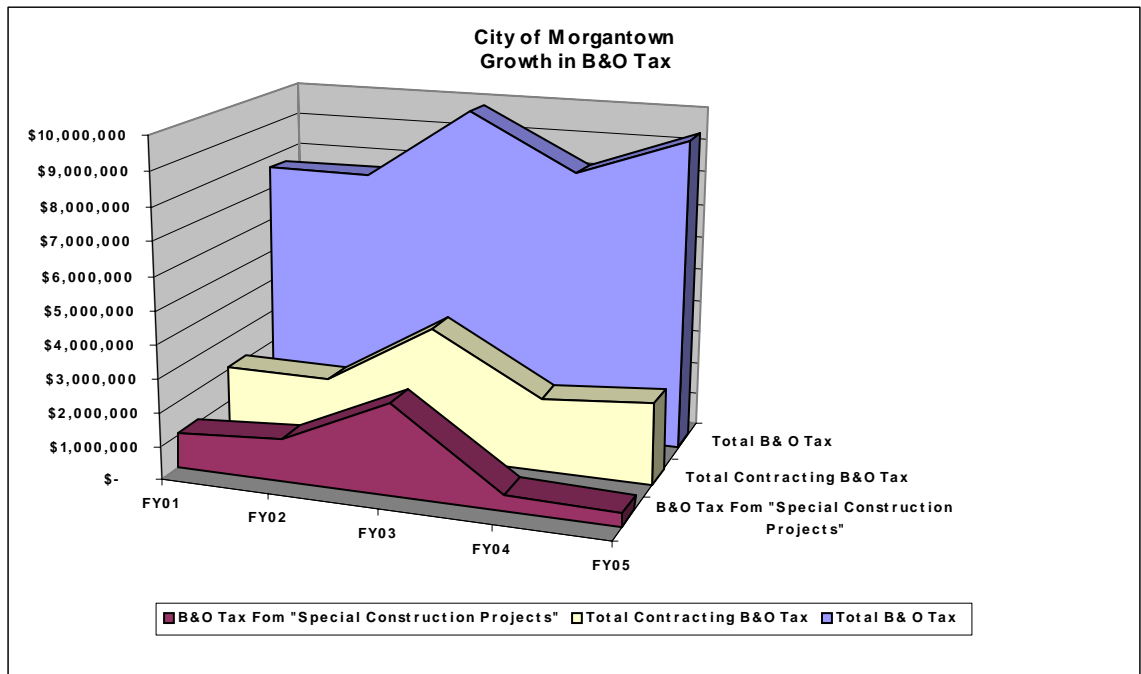
The Finance Department also provides various accounting services including payroll, accounts payable, general ledger accounting, and tax reporting, as in-kind contributions, to Main Street Morgantown and the Campus Neighborhoods Revitalization Corporation.

Revenue Administration

As evidenced by the following chart, business and occupation (B&O) taxes accounted for approximately 56% of the City's General Fund Revenue. This percentage is in line with previous years, and underscores the importance of this particular source of revenue to the City's financial health.



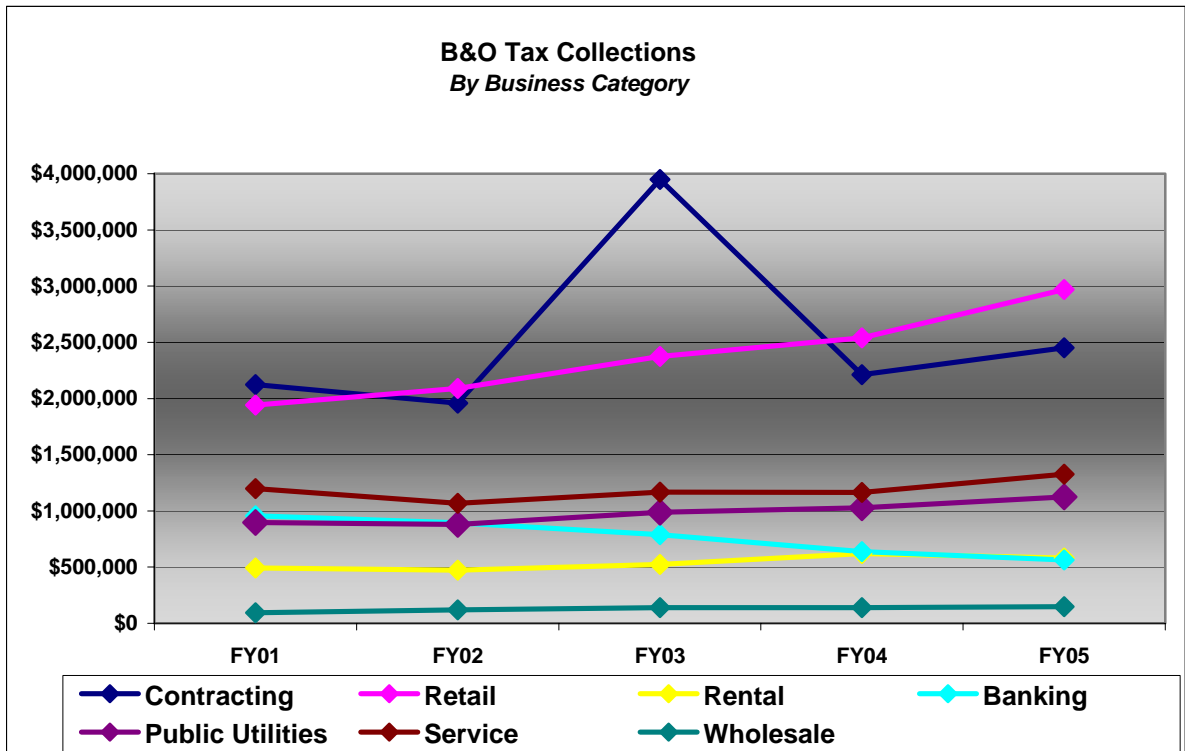
With the economic growth experienced in Morgantown in recent years, revenue administration has become increasingly challenging for the staff of the Finance Department. As depicted by the following graph, business and occupation tax revenue, which comprises over half of the General Fund budget, has grown significantly over the past several years:



The B&O tax from “Special Construction Projects” is the tax collected from specifically identified major projects, those single projects exceeding \$5 million in total cost. All of this extraordinary B&O tax revenue is contributed to the Capital Escrow Fund for capital improvements. While this revenue source has leveled during the past two years, several large

construction projects by WVU, WVU Hospital, and private developers are scheduled to begin during the next year.

Due to the sheer volume in both number and dollar value of construction projects, the tracking and monitoring of construction projects is consuming more and more staff resources. However, the collection of other categories of B&O tax revenue must also be monitored and compliance enforced. The following graph depicts the trends in the major categories of B&O tax revenues by dollar value:



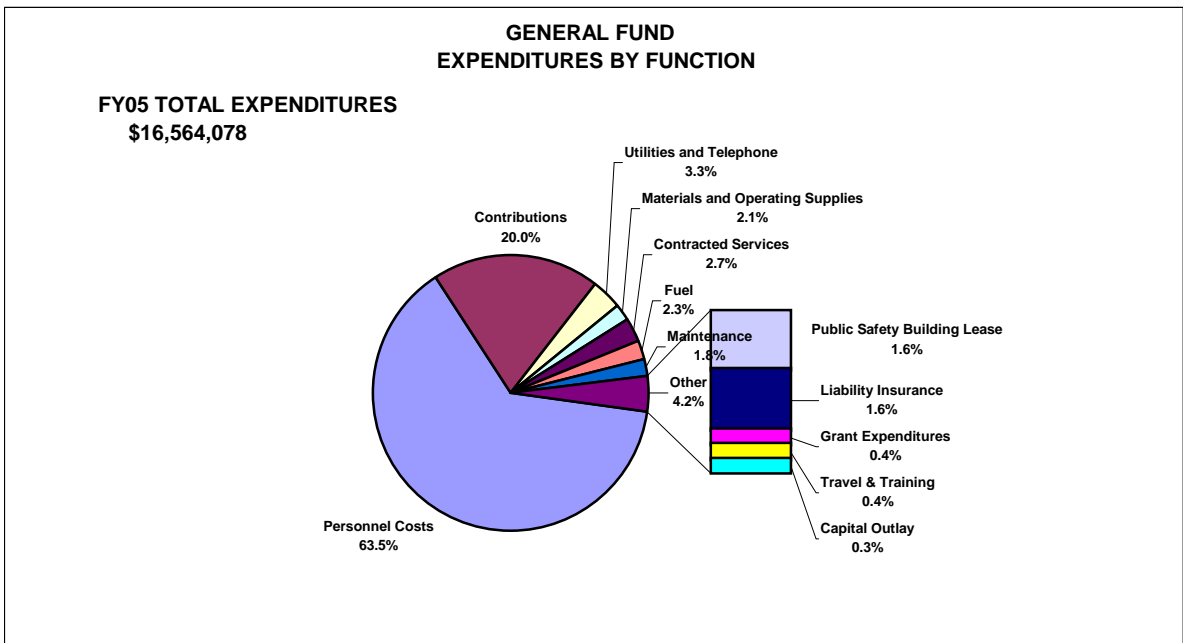
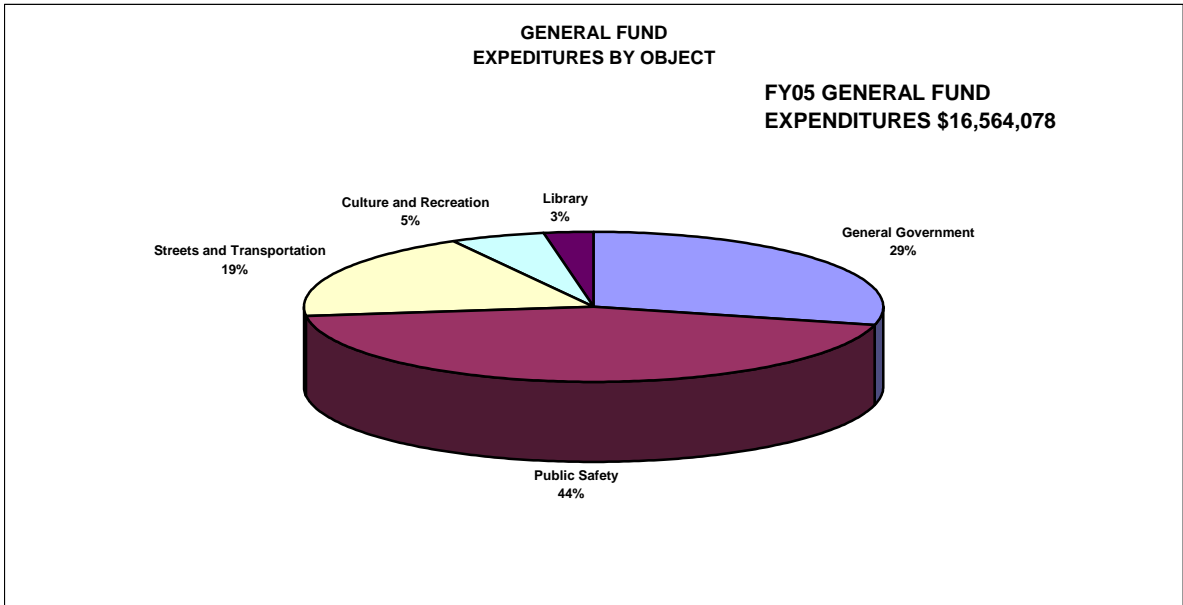
Most of the growth in other categories of B&O tax revenue has been seen in retail, rental, and public utilities. While the retail classification shows a steady growth during the years depicted above, it is starting to level with the first quarter of fiscal year 2006. In addition, fiscal year 2005 shows a sharp increase due to the collection of the retail B&O tax owed on sales by several large condominium projects. The growth in the rental category is expected to level as most of the increase seen in fiscal years 2003 and 2004 resulted from targeted collection efforts. The growth in the public utilities category can largely be attributed to utility rate increases implemented in the past few years. Understanding the trends in these other categories of B&O tax revenue is of particular importance as these categories represent the sustainable tax base used to fund ongoing operations.

Analysis of Expenditures

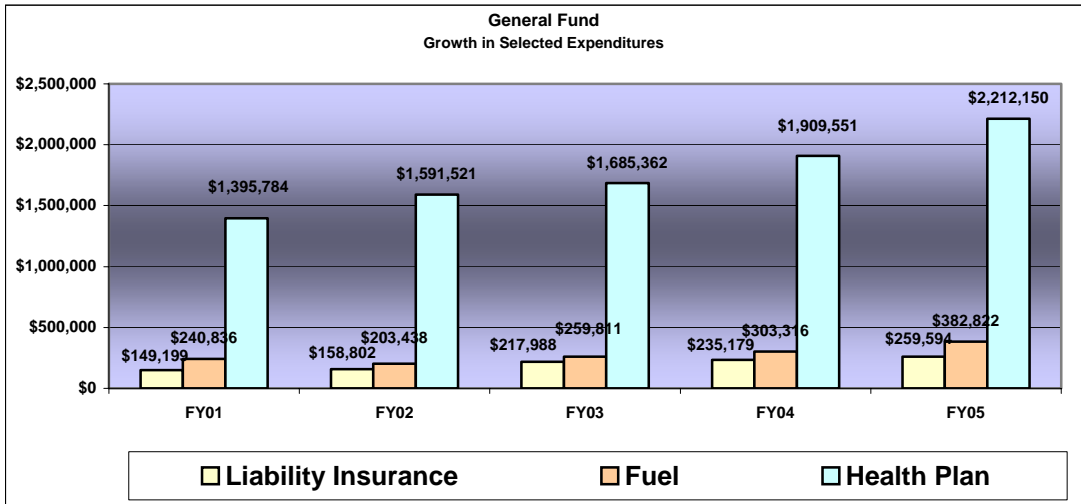
Finance Department staff is responsible for processing all purchase orders and issuing all disbursements checks for all funds of the City of Morgantown, with the exception of BOPARC and the Library. During the last fiscal year, approximately 6,441 invoices were processed and 4,671 accounts payable checks were issued.

Personnel costs comprise almost 64% of total expenditures. These expenditures include salaries and wages, payroll taxes, and fringe benefits including retirement and health insurance. The Finance Department staff processes payroll disbursements bi-weekly for approximately 210 full-time employees and 27 part-time employees. In addition, monthly pension disbursements are also processed for approximately 190 retirees and/or survivors of the City's three pension funds.

The following charts illustrate total expenditures for the General Fund by object and function:



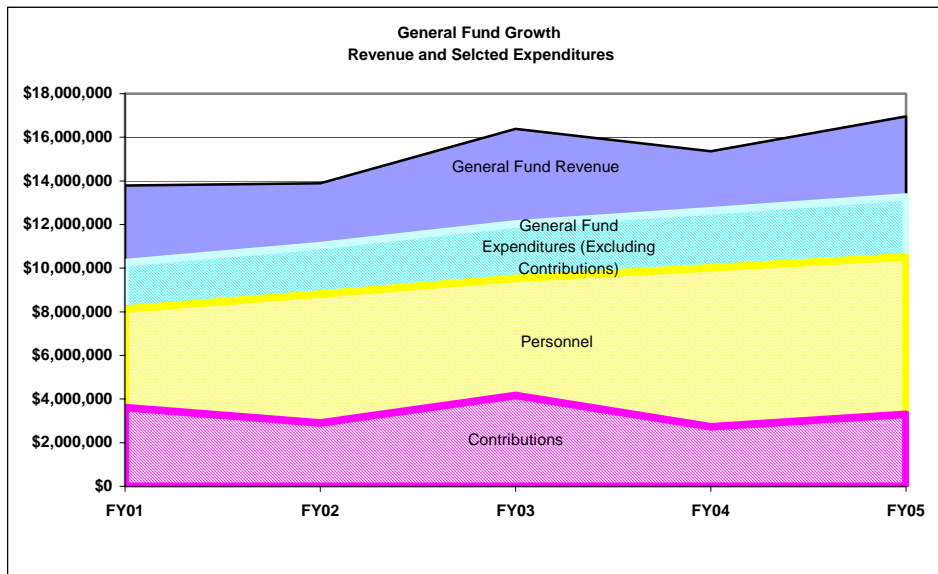
The past few years have seen dramatic increases in insurance premiums, health costs, and fuel costs as depicted by the following graph:



However, the City’s property and liability insurance renewal premium, which became effective April 1, 2005, increased only slightly more than 1% and eliminated or reduced certain deductibles. This is primarily a result of effective claims management and improved safety efforts.

Positive results have also been reported in the City’s self funded health plan. The new rates that go into effect January 1, 2006 for claims funding have been reduced as a result of significantly reduced claims costs over the past year. However, the reduced claims costs can be partly attributed to the deductible increases that went into effect January 1, 2005, with employee funding going from 21.8% to 28.7% of total plan costs.

Overall, operating expenditures have remained on pace with General Fund revenue as shown below:



The amount shown above for contributions include operating contributions to BOPARC, Library, Mountain Line Transit, and the discretionary contributions to the Capital Escrow Fund. Notice the correlation between general revenue collections and the contributions made

for that year. This is largely a result of the one-time construction B&O tax revenues being contributed to the Capital Escrow Fund, as except for this past year, the one-time B&O construction tax revenues account for the most of the spikes and dips seen in collections.

Treasury Management

Another important responsibility of the Finance Department is the management and investment of all City funds. Cash accounts and investments totaled \$52,874,121 at June 30, 2005. Of this amount, \$45,424,548 represent pension fund assets, which are managed by professional money managers. For the most part, the remaining funds are held in local banks in checking and money market accounts and certificates of deposit. Currently, the Finance Department manages twenty-six checking and money market accounts and oversees ten trust accounts.

As funds become available for temporary investment, Finance Department staff seeks competitive rates from the local financial institutions that have been approved by City Council as authorized depositories. This function is again becoming more important as interest rates are finally starting to increase from the record lows seen over the past few years and are becoming more competitive.

RESOURCES

Finance Department Staff

The most valuable resource in the Finance Department is its dedicated and experienced staff. The staff of seven full-time employees includes the Finance Director, Assistant Finance Director, and five accounting clerks, each of whom is responsible for a specific functional area. During the past year, the Department has added a part-time clerical support position who performs data entry, mail processing, and filing. The addition of this part-time clerk has benefited the Department greatly in freeing full-time staff to concentrate on the more critical aspects of their jobs.

The accounting assistant for BOPARC is also located in the Finance Department. This staff member performs payroll, accounts payable, and general ledger accounting for BOPARC using the Finance Department computer system and is supervised by the Finance Director. Of the eight, full-time staff members located in the Finance Department, five have over nineteen years of experience with the City of Morgantown.

In addition to the Finance Department staff, the Finance Director also oversees the staff of Municipal Court. When available, the part-time Finance Department clerk also assists with data entry and address checks for the Municipal Court.

Computer System

The Finance Department utilizes an IBM Series 820 computer system that is used for all accounting functions including budgeting, general ledger, accounts payable, accounts receivable, payroll, and revenue collection. All staff members have PC workstations, which are networked to the main City Hall computer network and have Internet access and email capability.

New World Systems is currently working on customizations to the accounting software that will enable B&O tax reports to be run for specific locations, types of businesses, and filing periods. The enhanced reporting capabilities will give management vital and timely information on business growth trends in the City and will greatly assist in revenue projections. Modifications are also in the works that will enable staff to run returns for mailing directly from the computer system with names, address, and balances due. The calculation of interest and penalties is also being added to the system capabilities. Currently, staff uses address labels affixed to blank returns, must manually look up and enter prior balances before quarterly mailings, and manually calculate interest and penalties. These modifications will greatly enhance the efficiency and accuracy of return processing.

Currently, the City Manager's Office, Public Works, Police, Parking Authority, and BOPARC have inquiry access to the Finance Department computer system. The Fire Department and Airport will be given access as soon as their individual computer network issues are resolved. This enables Department heads to check budget lines, invoices, purchase orders, and other data. As a result, accurate, timely financial information is now available to the various Departments. This has eliminated the duplication of accounting activities that existed within some of the Departments, freeing Department resources to be utilized for more vital operating purposes.

REVIEW OF THE PAST YEAR

Audit Results

The City of Morgantown received an unqualified opinion on its financial statements from the accounting firm of Tetrick and Bartlett, PLLC for the fiscal year ended June 30, 2004. In addition, there were no reportable conditions pertaining to the system of internal controls. One instance of noncompliance was reported which related to the Parking Authority's failure to meet its bond coverage requirements. However, this condition has been rectified in the current year. Tetrick and Bartlett has recently been awarded the audit contract for fiscal years ending June 30, 2005 and 2006 by the State Auditor's Office. Fieldwork is scheduled to commence December 19, 2005, and the audit report will be issued by January 31, 2006.

Staff Training and Development

The Finance Director attended the National Government Finance Officers Association's (GFOA) annual conference in June of this year. Topics covered included OPEB reporting, Check 21, SAS 99 and fraud detection, capital assets, and economic forecasts. The New World System's annual user conference was attended in October. This conference is important for keeping current on changes and enhancements being made to the various software applications as well as new developments in technology. New World now offers a Microsoft platform, the .Net. It is expected that as IBM systems need to be upgraded, users will be encouraged to migrate to the .Net platform.

Staff members continue to be involved in the activities of the Government Finance Officers Association, both on the State and National levels, and in the activities of the West Virginia Municipal League that deal with municipal finance and taxation. The Finance Director is

currently serving as Vice Chairperson on the Municipal League's Insurance Services Board of Trustees. The Finance Director also presented the Financial Management class at the spring session of the Local Government Leadership Academy. Other staff members attended classes on bankruptcy collections and Excel applications.

Credit and Check Cards Usage

Council approved the acceptance of credit and check cards in the previous year and the Finance Department implemented this service in October, 2004. Utilization was not significant through June 30, 2005, but has increased substantially in the 2006 fiscal year with the annual billings for fire fee, licenses, and permits that went out in July. This can be evidenced by the fact that \$2,000 was budgeted for credit card fees, and almost \$11,000 in fees has been paid through November, 2005, which will, of course, require a budget revision.

Medicare Prescription Drug Subsidy

With the implementation of the Medicare Part D Prescription Plan in January, 2006, health plan sponsors that prove they offer their Medicare-eligible retirees a benefit at least as beneficial as the one being offered to Medicare recipients are eligible to apply for a Federal subsidy if the current plans are kept in place. The City's plan qualified for such subsidy, according to the actuarial valuation of its current plan and, consequently, the City has received conditional approval of its application for the subsidy. The subsidy for the first year is expected to be approximately \$22,000 - \$25,000, depending on retiree claims.

FORECAST FOR THE COMING YEAR

The coming year will certainly bring some important new challenges and opportunities to the Finance Department.

Continued Implementation of GASB 34

The main features of GASB 34, including the reporting of the capital assets of governmental funds, were implemented during the year ended June 30, 2003. However, the retroactive reporting of infrastructure assets is not required for Morgantown until the fiscal year ending June 30, 2007. While the City began prospective reporting of infrastructure assets with the GASB 34 implementation year, Finance Department staff will be required to commence work on determining cost values for previously acquired infrastructure assets, in order to comply with this provision by the end of the phase-in period. GASB 34 allows entities to elect to report only infrastructure assets acquired since 1980, and the Finance Director expects to make this election.

Accounting for Other Post -Employment Benefits (OPEB)

GASB Statements 43 and 45, issued in 2004, establishes the accounting and reporting requirements for post-employment benefit plans other than pensions. According to GASB, post-employment healthcare benefits are always considered to be OPEB, and therefore the City of Morgantown will be required to implement these statements.

Many of the provisions promulgated in these statements mirror the provisions already in place for pension plans. The City will be required to present the cost and the related liability associated with the provision of post-employment health care benefits in the periods in which these benefits are earned, as well as amortize the costs already incurred but not recorded. Typically, the benefits are earned during the period of active employment. In addition, actuarial valuations will be required to estimate the actuarial accrued liability (AAL). Valuations will be required every two years for plans with 200 or more total members, every three years for plans with 100 or more but less than 200 members.

The implementation year, which is based on revenue, for the City of Morgantown will be the fiscal year beginning July 1, 2008. While this is still four years in the future, the significance of this impact on the City's financial statements needs to be investigated and understood so that City management can take a proactive course of action. For plans that do not currently fund the cost of these post-employment benefits, the AAL and the OPEB cost can be expected to have a significant impact on the entity's financial condition.

Other Plans for the Coming Year

In addition to continuing with the ongoing programs and activities previously described, Finance Department staff plans to

- Modify existing business license applications and rewrite the instructions for the same
- Provide additional tax forms and license applications via the City's web site
- Implement the filing of certain tax returns and applications, along with the payment of the same, via the Internet
- Solicit proposals for comprehensive banking services to provide better services and enhance earnings
- Promulgate written operating policies and procedures for various functional areas

SUMMARY

The staff of the Finance Department continually strives to be of assistance to City management and other City Departments and agencies in reaching their goals. This is accomplished by providing accurate and timely information, which is necessary in making decisions critical to proper financial management and planning, as well as providing expertise in a number of different financial and managerial areas. However, the Finance Department is primarily committed to making all citizens' experience with City government a positive one by continually emphasizing equity in revenue administration, professionalism, and customer service.

As the economic growth and expansion of the City of Morgantown continues to increase so do the duties and responsibilities of the Finance Department. The Finance Department staff is committed to rising to the challenges presented and anticipating those yet to come.