

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 financial reporting function of the City of Morgantown and its agencies to external users such as bond trustees, rating agencies, Federal and State grantors, and the WV State Auditor's Office.

However, 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, nine 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.

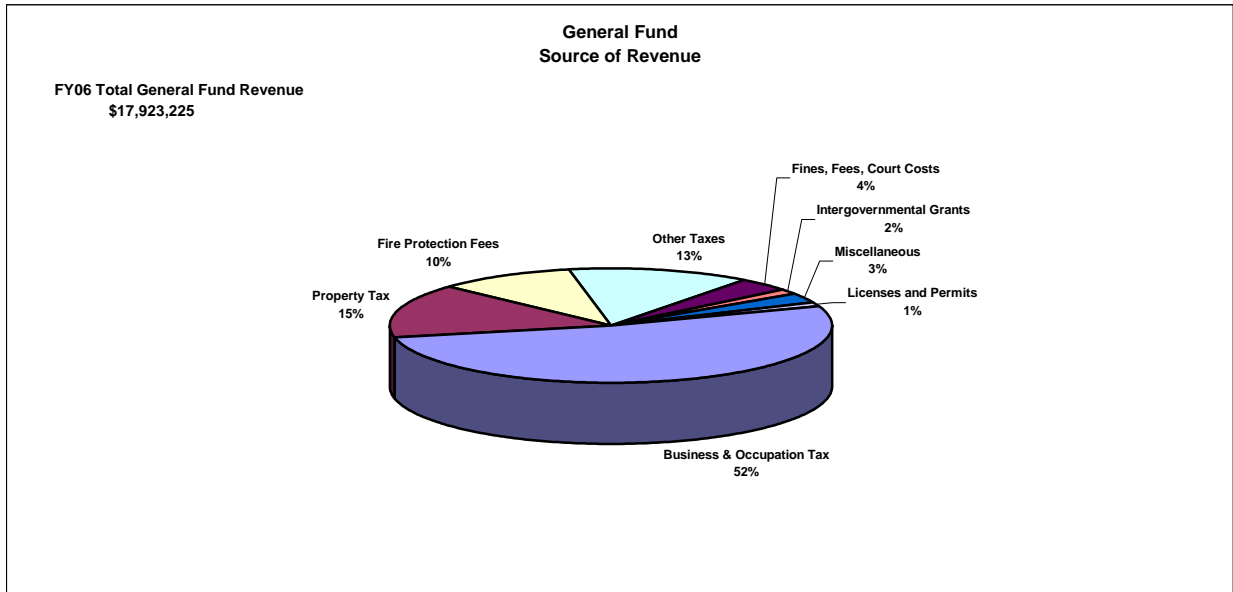
The accounting functions of the Board of Parks and Recreation Commissioners Fund (BOPARC) are also under the supervision of the Finance Director, with the Finance Director attending all BOPARC meetings and presenting the monthly financial reports to the Board. The Finance Director also works closely with BOPARC administrative staff in the formulation and monitoring of BOPARC's annual operating budget, which has grown approximately 27% over the last five years. Several major projects undertaken by BOPARC over the past few years, such as Dorseys Knob Park and Lodge and the Wiles Hill Senior and Community Center, have greatly increased the budgeting, financing, and management reporting requirements of BOPARC.

The Finance Director also oversees the risk management and insurance programs for the City and its agencies, including BOPARC and the Library. This includes procurement, claims administration, and coordination of risk management activities.

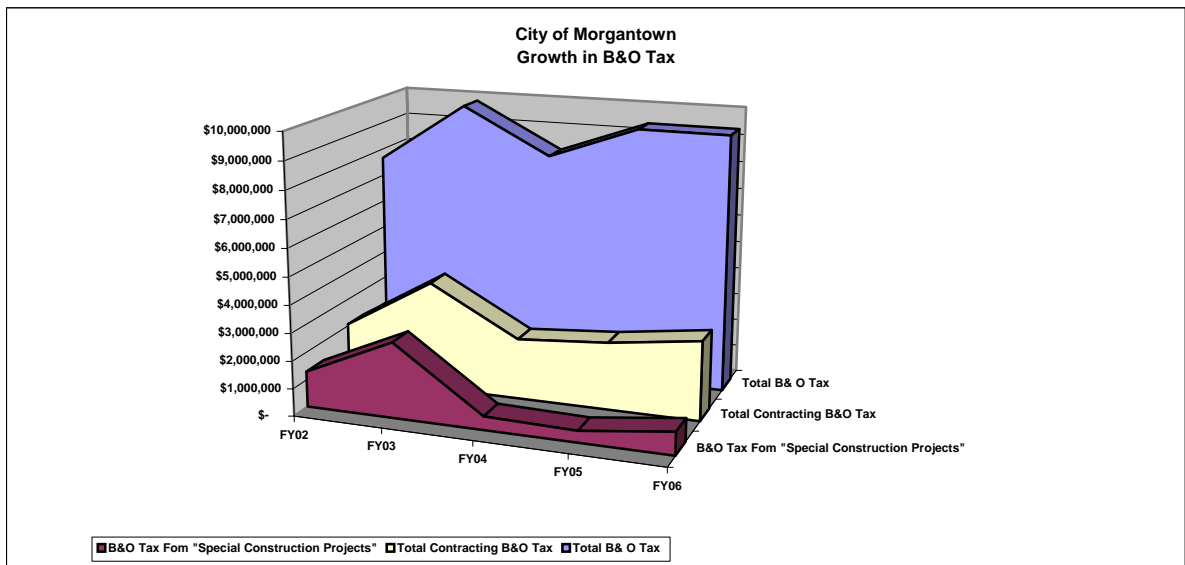
The Finance Director coordinates the annual audit of the City's financial statements, which include the Morgantown Public Library in addition to the funds previously listed. Finance Department also provides various accounting services including payroll, accounts payable, general ledger accounting, and 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 52% 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.

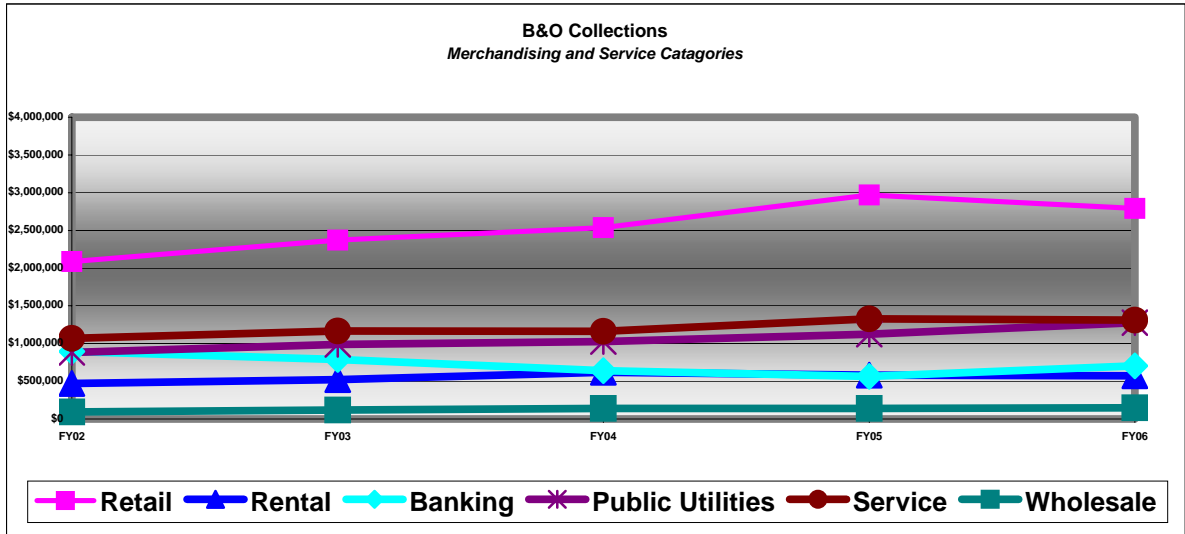


With the economic growth experienced in Morgantown in recent years, revenue administration has become increasingly challenging for the staff of the Finance Department. As depicted by the following graph, business and occupation tax revenue, which comprises over half of the General Fund budget, has grown from a total of \$7.6 million in FY02 to \$9.4 million in FY06, approximately 22% in five years. However, it is important to note that the growth appears to be leveling. In fact, total B&O revenue in FY06 was down a little over \$10,000 from FY05, even though contracting B&O revenue was up slightly.



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.

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, other than contracting, of B&O tax revenues by dollar value:



Both the retail and service classifications show growth over the years depicted above, with the growth leveling during the last two years. Although the retail category actually shows a decline from FY05, it should be noted that the spike seen in retail in FY05 was largely due to the collection of the B&O tax owed on sales by several large condominium projects. The growth in the public utilities category can largely be attributed to utility rate increases implemented in the past few years.

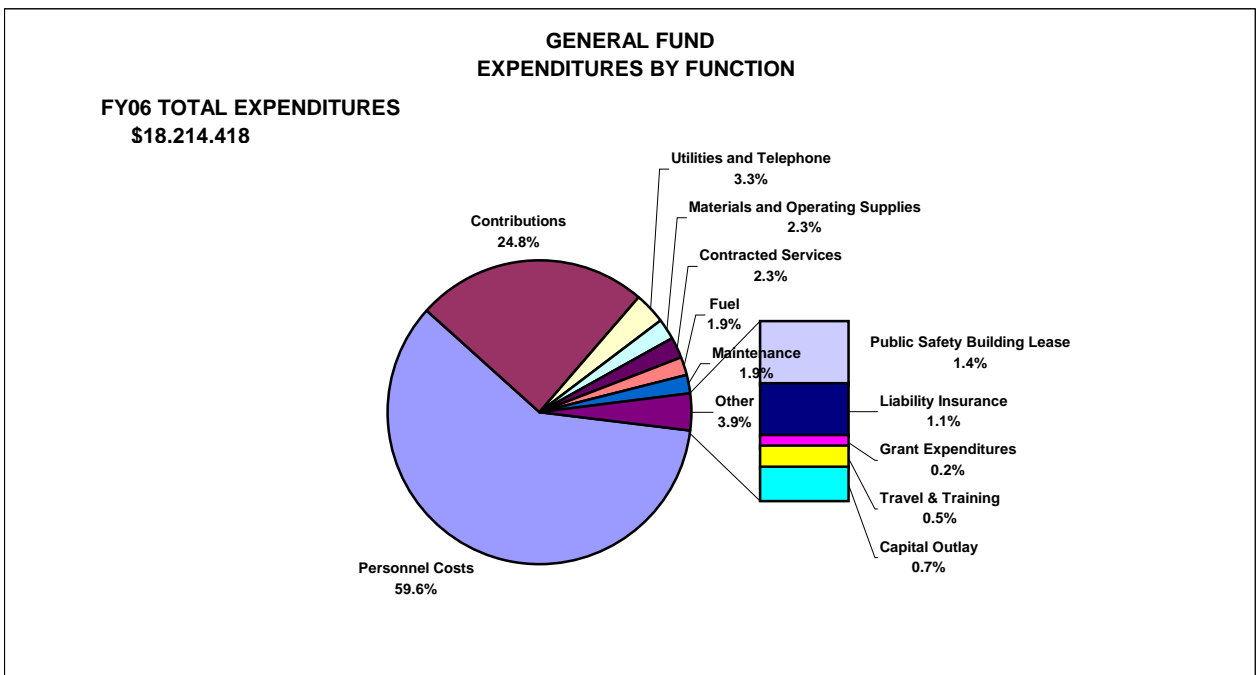
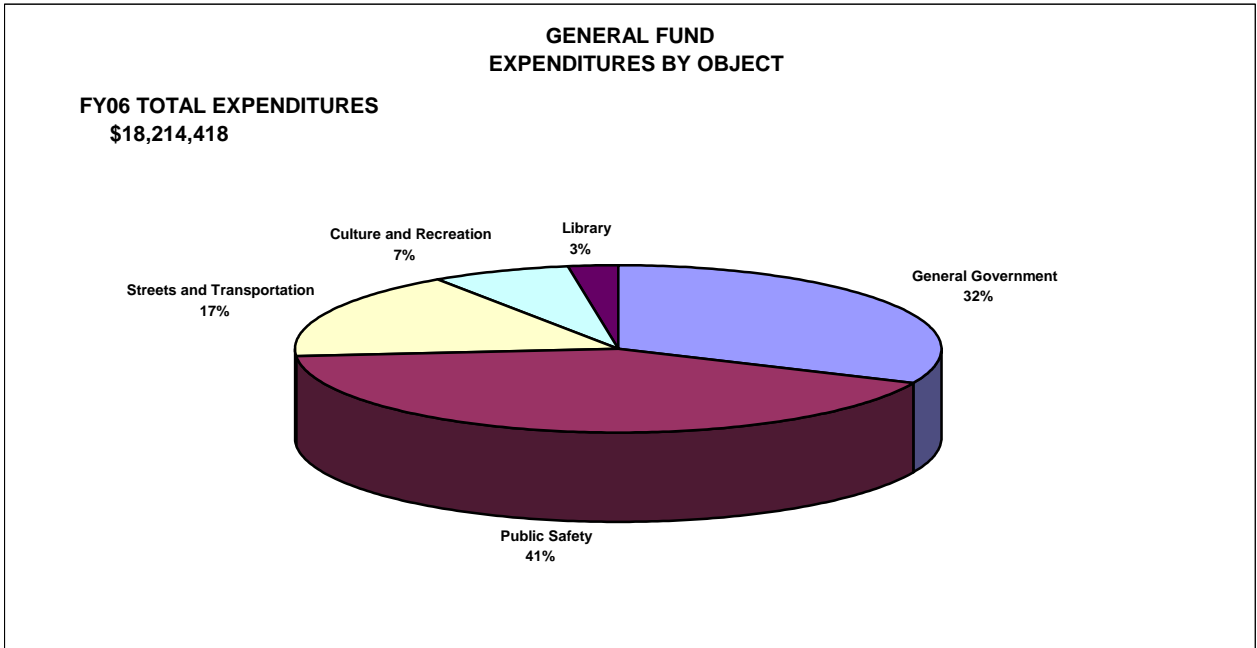
However, it appears that the trends are again moving upward as the first five months of FY07 show an increase of approximately 13 % over FY06 revenues for the same period, with substantial increases in the categories of banking, retail, and service. Understanding the trends in these other categories 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

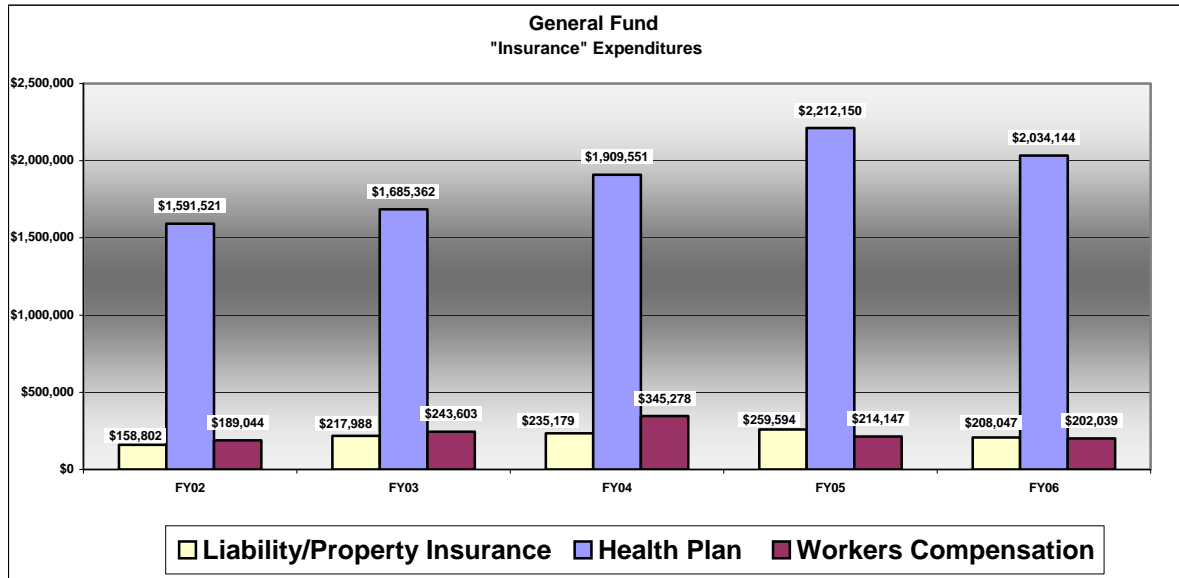
Finance Department staff is responsible for processing all purchase orders and issuing all disbursements checks for all funds of the City of Morgantown, with the exception of BOPARC and the Library. During the last fiscal year, approximately 6,206 invoices were processed and 4,183 accounts payable checks were issued.

Personnel costs comprise almost 60% 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 217 full-time employees and 17 part-time employees. In addition, monthly pension disbursements are also processed for approximately 197 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:



Expenditures for various types of insurance have been of concern over recent years. The following graph depicts the actual costs for liability and property insurance, health care contributions, and workers' compensation premiums in the General Fund over the past five years:

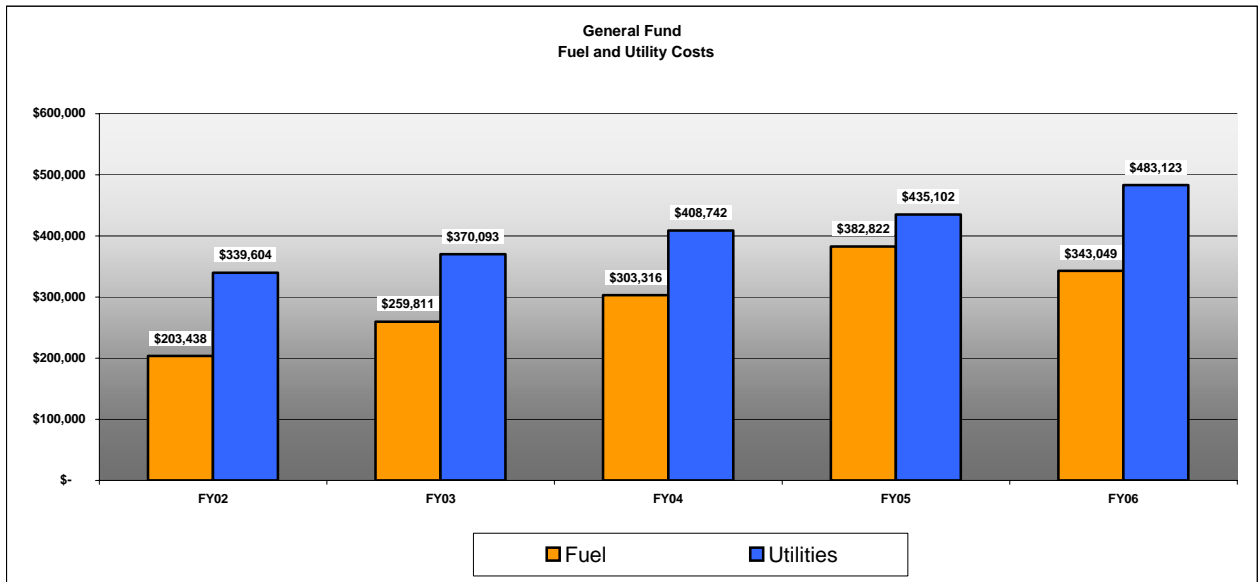


The City's insurance agent annually secures quotations from different insurance carriers for property and liability insurance. This year's procurement process resulted in the City changing carriers to St. Paul/Travelers at a savings of approximately 5% over the previous carrier's quote and 14% over the expiring premium. In addition to lower premiums, St. Paul/Travelers has an excellent risk management program with an extensive risk control website. Additionally, during its recent quarterly review, the carrier commended the City on its excellent loss experience so far this year.

Positive results were seen in the funding levels necessary in the City's self-funded health plan in the past year with only slight increases in reinsurance premiums and administrative costs. However, the claims portion of the funding is increasing substantially for the coming plan year (January – December) because the prescription drug portion of the claims cost was not included in the annual renewal estimate of claims cost. With prescription drugs comprising approximately 23% of total claims cost, this caused the calculated contribution per employee for the past year to be substantially lower than needed. However, due to lower than anticipated claims and funding at 125% of expected claims, the self-insured health fund has remained well in compliance with recommended funding levels.

The City has realized some preliminary cost savings with the switch to BrickStreet, the private insurance company formed by the State to replace its state-run workers compensation program. BrickStreet is utilizing multiple NCCI codes to classify workers by risk; consequently, the City now reports employees in several different classifications and rates, rather than just one "municipal" rate previously used. The preliminary results of a recent premium audit of the first six months of 2006 indicate that both the City and BOPARC will receive a sizable credit against future premiums.

Expenditures for utilities and fuel have both caused considerable budget strain in recent years, as illustrated by the following graph. The increase in utility costs can be attributed to rate increases for natural gas, the storm water charge implemented by MUB in 2003 and the “new” charge by MUB for wastewater treatment at the City landfill, which began in April 2005. However, the first \$100,000 of these charges was offset by a “loan” the City had advanced MUB, with actual expenditures averaging between \$6,500-\$8,000 per month commencing in April 2006.



Treasury Management

Another important responsibility of the Finance Department is the management and investment of all City funds. Cash accounts and investments totaled \$56.4 million at June 30, 2006. Of this amount, \$48.9 million represents 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-eight checking and money market accounts and oversees ten trust accounts.

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, five accounting clerks, and a part-time clerical support position. The full-time accounting clerks each have primary responsibility for a specific functional area, while the part-time clerk performs data entry, mail processing and filing for all functional areas.

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 twenty 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 look-ups in Municipal Court.

Computer System

The Finance Department utilizes an IBM iSeries 820 computer system and New World Systems software 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.

REVIEW OF THE PAST YEAR

Bank Proposals

During the current year, the Finance Department sought proposals from local, Downtown banks for the placement of the bulk of its checking and money market accounts. The goal was to eliminate the many transfers made by checks between banks each week, simplify the reconciliation process, free staff time, minimize fees, and maximize interest earnings. All banks that were sent a request for proposal responded, and Centra Bank at the Waterfront was chosen. However, the actual switching of accounts did not take place until July of 2006.

The Department is now utilizing the Centra Bank's on-line banking service for account lookup, transfers between accounts, direct deposit of payroll checks, and stop-payment requests. In addition, because of the combined value of the accounts, the City is earning a very favorable rate of interest on all its accounts and pays virtually no fees. This is expected to increase annual earnings by \$75,000 in the General Fund alone.

Computer System Enhancements

During the current year, customizations to the accounting software that enable B&O tax reports to be run for specific locations, types of businesses, and filing periods were installed by New World Systems and implemented by the Department. An intern from the Public Administration Program at WVU worked this summer on inputting correct location and business classification information for the B&O system and the business license system. Modifications were also installed that will enable staff to run returns for mailing directly from the computer system with names, addresses, and balances due, and calculate interest and penalties. Currently, staff uses address labels affixed to blank returns, manually looks up and enters prior balances before quarterly mailings, and manually calculates interest and penalties. These modifications are currently in the testing stage and, when implemented, will greatly enhance the efficiency and accuracy of return processing.

Financial Structure Brochure

Finance Department staff provided the text and financial information for the “Financial Structure” brochure that was put together by the City Manager’s Office and recently printed. The brochure also includes photos of some of the staff. The brochure will be used to educate the public on how the finances of the City are organized and managed.

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, 2005. In addition, there were no reportable conditions pertaining to the system of internal controls or instances of noncompliance. Fieldwork for the audit of the year ended June 30, 2006 has been completed, and a draft version of the report is expected by December 31. Once the draft report is received, the Finance Director will complete the Management’s Discussion and Analysis (MD&A) for inclusion in the final report, which will be issued by January 31, 2007.

Forms and Applications

The form for business licenses was revised this year to provide more complete, updated, and useful information. In addition, forms for various licenses are now available for downloading and printing on the City’s web site.

Staff Training and Development

The Finance Director attended the National Government Finance Officers Association’s (GFOA) annual conference in May of this year and the New World System’s annual user conference in October. These conferences are important for keeping current on new developments in financial reporting, management, and technology.

The Finance Director and Assistance Finance Director were elected to serve as President and Vice-President, respectively, of the WV Government Finance Officers Association for the fiscal year ending June 30, 2007 at its semi-annual meeting held in April 2006. The Finance Director also served as Vice Chairperson on the Municipal League’s Insurance Services Board of Trustees during the past year. However, the Municipal League’s insurance pooling program was not implemented as planned and is now considered “on hold.”

The Finance Director served on the Property Tax and Local Government Finance Subgroup of the Governor’s Tax Modernization Project. The subgroup made several recommendations that were included in the “2006 Report to Governor Joe Manchin III by the West Virginia Tax Modernization Project”, including those for immediate consideration, intermediate implementation, and further study and analysis.

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 the unclaimed property and workers compensation issues.

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, and its application for the subsidy for the 2006 plan year was finally approved in September 2006. However, the cost reporting function is still being worked, so no subsidy payments have been received as yet for 2006.

However, the application for the 2007 plan year has already been approved. The actuary that certified the City's plan (as to meeting the Medicare requirements) estimates the eventual subsidy to be received at approximately \$20,000 per year. The Finance Director is currently working with staff at Medical Claims Service (the plan TPA) on getting costs submitted for both years.

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. The Finance Director has discussed this matter with the auditors and will 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, and 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 two 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

- Implement the use of debit cards for Department heads for travel and for limited Internet purchasing
- Review and strengthen cross-training of Department staff
- Improve and expand the assessment and lien process for delinquent taxes
- Implement the filing of certain tax returns and applications, along with the payment of the same, via the Internet
- 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.