FY 2013-14 Budget
Financial Notes

Balanced Budget

The FY 2014 Budget is balanced. State law requires cities to balance their budgets so that expenditures do not exceed available revenues. The FY 2013 Budget Amendment exposed that the city had been operating a deficit in the General, Water, and Wastewater Funds. These operating deficits required the use of one-time revenue such as the fund balance reserve and fund transfers to balance the previous year's budget.

Chart 10-1: FY 2012-2013 Operating Deficit

Fund	Revenue	Expense	Deficit
General	$ 2,884,886	$ 3,110,393	($ 225,507)
Water	$ 1,488,311	$ 1,769,398	($ 281,087)
Wastewater	$ 357,364	$ 389,737	($ 32,373)

Matching Revenues & Expenditures

In addition to balancing each fund's budget, an effort was made to match operating expenses with current revenues, and capital expenditures with one-time revenue sources. Matching is a common practiced used in credit analysis to help determine the overall financial health of an organization. The goal of the matching exercise is not to balance the funding source and expenditure, simply to ensure that one-time revenues are not being relied upon to fund operational expenditures.

Chart 10-2: Matching General Fund Revenues & Expenditures

One-Time Revenue	Amount	Capital Expenditure	Amount
Transfer from Water	$97,856	Capital Improvements	$160,000
Transfer from Wastewater	$15,215		
Transfer from Tourism	$ 5,000		

Use of Reserves

The FY 2014 Budget does not use any reserve funds to support operations in the General Fund budget. The General Fund does benefit from inter-fund transfers from the Water, Wastewater, and Tourism Funds as noted in Chart 10-2. The Water and Wastewater transfers are to resolve outstanding balances between the funds. Over the last sixteen years a number of interfund transfers have taken place between the General, Water, and Wastewater Funds. These transfers were all noted in their respective

year's audit. However, the interfund balances reported in the annual audits did not correspond with the noted interfund transfers. To put it simply the audit accounted for movement of money between funds, but the audit did not track those funds as being owed from one fund to another.

Chart 10-3: Summary of Interfund Transfers FY 97 through FY 12.

Transfer	Total
Transfer from General to Water	246,505
Transfer from General to Wastewater	338,908
Transfer from General (D/S) to Wastewater	19,500
Transfer from Water to General	38,644
Transfer from Water to Wastewater	332,903
Transfer from Wastewater to Water	231,342
Transfer from Wastewater to General	309,067
Transfer from Wastewater to General (D/S)	19,273

The transfer balances were then reconciled to determine the true interfund balance between funds.

Interfund	Total Balance
Water owes General	207,861
Wastewater owes General	29,841
Wastewater owes General (D/S)	227
Wastewater owes Water	101,561

The FY 2013 Budget Amendment included transfers to resolve the stated General Fund interfund balances in audit. The FY 2014 Budget transfers the remaining balances owed to the General Fund.

Interfund	Total Balance	Less the FY 2013 Transfer	Current Interfund Balance
Water owes General	207,861	$110,005	$97,856
Wastewater owes General	29,841	$14,853	$ 14,988
Wastewater owes General (D/S)	227		$277
Wastewater owes Water	101,561	*	*

*The Waste Water Fund interfund balance to the Water Fund will not be resolved in the FY 2014 Budget.

**For FY 2014 the Water Fund uses $97,856 from its fund balance reserves to make the interfund transfer to the General Fund.

**For FY 2014 the Wastewater Fund $14,988 from its fund balance reserves to make the interfund transfer to the General Fund.

Long Term Issues

Most of the long term issues facing the city are all related to growth and maintenance of infrastructure. The city will always have more capital requests than available funding which why the city needs to develop a more robust capital improvement budget. For items such as equipment the city needs to develop a replacement schedule. For items such as major road repairs a priority list needs to be adopted and re-evaluated annually.

Most of the city's long term challenges relate to the city's public utilities. Once the city has addressed the water sourcing issues, the challenge is to keep up with growth through the capital improvement plan and to maintain the existing water system. Several parts of the current water system are over fifty years old and are in need of replacement.

The Wastewater system poses the most challenges for the city. The Wastewater Fund has a small customer base to service its increasing infrastructure costs and payback the funds it has borrowed from the Water Fund. The wastewater treatment plant is over twenty years old and is starting to require more attention. The location of the treatment plant my no longer be ideal given the development patterns in the Crown Pointe area.

The city also has no mechanism in place to address drainage issues. The city needs to identify a future revenue source to support a drain study which will be used to develop a drainage capital improvement plan. Then the city will need a continuous revenue source to execute the projects laid out in the drainage capital improvement plan.

The city needs to be better prepared for disaster situations. The city is fortunate to have a well-trained group of first responders, but disasters often have consequences long after the actual event. The city needs to build an additional reserve to protect the financial impact of disaster situations.