



# INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS"

HAROLD A. SCHAITBERGER  
General President

VINCENT J. BOLLON

General Secretary-Treasurer

February 27, 2008

Mr. Jim Petry, President  
IAFF Local 3768 - Miami Township (Clermont County)  
2479 Cedarville Rd  
Goshen, OH 45122

Dear President Petry,

In response to your request, we have reviewed the audited financial statements for Miami Township, Clermont County, Ohio.

Businesses and governments have different objectives and operate in different environments. A business enterprise exists to maximize profits and the "bottom line", or the profit part of its profit and loss statement, usually provides a reasonable measure of its success. The primary objective of a local government is to provide services to its constituents within budgetary constraints, and while it tries to provide those services in a cost effective way, its focus is not on profit.

Because of these differences, governments have some different accounting and reporting techniques and principles. One of the major differences between government and business accounting is the use in government of "fund accounting". A fund is an entity with a separate set of accounting records segregated for the purpose of carrying on a specific activity. Each fund has assets, liabilities, and what is called the fund balance or fund equity which equals assets minus liabilities. Each fund begins the fiscal year with a beginning fund balance from the previous year, it takes in receipts during the current year, it pays disbursements for the current year, and it ends the year with a new fund balance that gets carried over into the next fiscal year.

The fund balance is important because it represents the fund's reserves and is an important measure of a local government's fiscal strength. Although the condition of every fund is relevant in determining the financial health of the county, our review is most concerned with the general fund, because it is the general fund that finances general government operations, including the day-to-day operations of the fire department, such as salaries. Most townships account for the fire department within the general fund.

We find most of the information needed to evaluate a local government's financial condition in its comprehensive annual financial report (CAFR) or in this case the audited general purpose financial statements.

General purpose financial statements typically contain one major report types. It is:

1. The combined statement of cash receipts, cash disbursements, and changes in fund cash balances (often called the revenue and expense statement), which shows how much money came in and how much money was spent during the fiscal year.

What we hope to find in reviewing the financial statements include an unreserved fund balance in the general fund of over five percent of that fund's annual expenditures, most of which could be covered by cash and equivalent assets. Trends are important. We would like to see the fund balance not only

sufficiently large, but also stable or increasing. We would also like to see receipts increasing over time and sufficient to meet disbursements. The purpose of this review is to help you interpret what is reported in the financial statements, with the understanding that these statements do not always tell us everything. The reader has no way of knowing, for example, if a jurisdiction has failed to record significant receipts or disbursements that should have been accounted for in the reported fiscal year. The financial reports usually tell us little about local or regional economic conditions, except what is self reported by the county, and it is unlikely that the reports would give any clues about the local political situation or possible personal agendas of elected or appointed officials. Therefore, while we cannot say with absolute certainty that the township does or does not have sufficient resources, we can tell you what the financial reports say and suggest areas that might require further explanation.

**Historical General Fund Cash Balance**

The following table traces the general fund cash balance history over the past 3 reported years.

General Fund	
<u>Date Cash Balance</u>	
2004	\$2,879,403
2005	\$2,037,988
2006	\$1,559,593

The general fund cash balance decreased by approximately 46% from fiscal year 2004, a negative indicator.

**General Fund Actual Cash Receipts Versus Actual Cash Disbursements, Plus Transfers**

Fiscal Year	Actual Cash Receipts	Actual Cash Disbursements	Variance
<u>Ending Dec. 31</u>			
2004	\$6,421,254	\$4,194,662	\$2,226,592
2005	\$2,306,315	\$3,158,601	(\$852,286)
2006	\$2,744,302	\$3,911,994	(\$1,167,692)

In FY05 and FY06, disbursements exceeded receipts, at least on a budgetary basis. In FY04 cash receipts exceeded cash disbursements. This means that unless some other adjustment changed the balance, the general fund balance would have decreased in FY05 and FY06, which in fact it did.

The situation in which receipts do not cover disbursements is often referred to as an operating deficit. An operating deficit does not mean that the fund or the district is bankrupt. Whether or not it is cause for serious concern depends on the amount of the operating deficit, the level of fund balance, and whether it is an isolated case, which is unlikely to repeat, or part of a trend of insufficient receipts. If the General Fund has a negative fund balance, which means that liabilities are greater than assets, the district is almost certainly in serious financial difficulty.

**General Fund Cash Balance:**

One very important indicator of financial health is the level of cash fund balance. The cash fund balance can be defined as cash receipts minus cash disbursements. In the case where the General Fund were short of cash and/or equity, we could not assume that transfers could be made from other funds to correct the problem because there are usually restrictions on the use of assets of other funds. Even where the equity is sufficient, not all the fund balance is available for appropriation.

First, there are two subdivisions within the fund balance for any fund--the reserved balance and unreserved balance. The reserved fund balance includes money that must be set aside for a specific purpose due to a legal commitment. It is similar to, but not exactly the same as, a liability. "Reserved for encumbrances", which can include purchase orders and signed contracts for goods or services not yet received, is an example.

Second, townships and counties must keep a certain level of fund balance to maintain a favorable bond rating. A favorable bond rating is desirable because a high rating enables it to borrow money at a lower interest rate. It is also simply good management to maintain a reserve to cover emergencies and unforeseen circumstances.

The appropriate fund balance level is related to the level of disbursements. The table below compares the total General Fund cash balance to disbursements.

**General Fund Cash Balance as a Percent of Cash Disbursement, Plus Transfers**

Fiscal Year Ending Dec. 31	Total General Fund Cash Balance	Actual Cash Disbursements	Total Fund Balance as % of Cash Disbursements
2004	\$2,879,403	\$4,052,009	71.1%
2005	\$2,037,988	\$2,867,730	71.1%
2006	\$1,559,593	\$3,572,697	43.7%

As referenced in *Moody-5 on Municipals*, published by Moody's Investors Service:

"the level of fund balance is related to the likelihood of drawing upon these accumulations. Generally, a fund balance of 5% of the budget is deemed prudent."

As of 12/31/06, the township's total fund balance as a percentage of disbursements has decreased, however, the level of fund balance remains well above the suggested level.

**General:**

The township's financial situation appears relatively stable. There were some positive and some negative indicators. The general fund cash balance has decreased approximately 46% from fiscal year 2004 to 2006, which is a negative indicator. The fund balance as a percentage of expenditures although it declined from FY05 to FY06, remains well above the standard established by Moody's. Please do not hesitate to contact us if anything in this report needs clarification or if you have any questions.

Fraternally,

Sue N. Valentine  
Department of Labor Issues & Collective Bargaining

cc: Thomas H. Miller, Vice President, IAFF 8 th District