

Division of Local Government Finance

“LGF”

What is Financial Excellence

Steve Osborne and Ben Johnson

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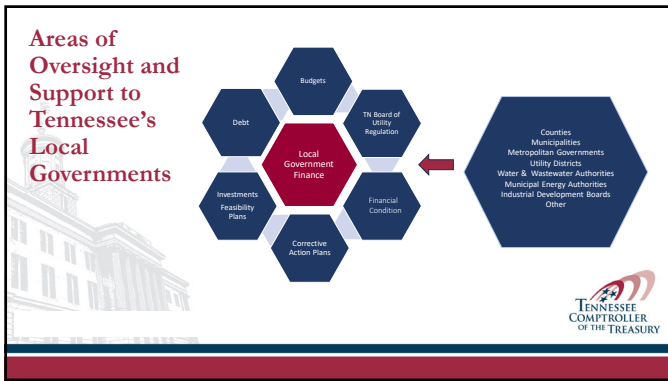
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JASON E. MUMPOWER,
COMPTROLLER OF THE
TREASURY

A portrait of Jason E. Mumpower, a man with a shaved head, wearing a dark suit, white shirt, and a red and blue striped tie. He is standing in front of the Tennessee State Capitol building, which features a large dome and a flagpole with the state flag. The image is framed by a dark blue and maroon border.

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Division of Local Government Finance Contact Information by Region

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Agenda

- Brief Overview of LGF
- Comptroller's Financial Excellence Award
- What is Financial Excellence
- Financial Health Metrics
- Introduction to Seven Keys

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Comptroller's Award for Financial Excellence

TENNESSEE COMPTROLLER OF THE TREASURY

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Comptroller's Award for Financial Excellence



The Comptroller's Financial Excellence Award recognizes and congratulates local governments that have taken the initiative to implement and maintain excellence in the following areas:

- Budgeting
- Debt Management
- Financial Management
- Financial Oversight and Accountability
- Financial Reporting and Transparency



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Comptroller's Award for Financial Excellence



Items needed for the award:

- Budget certificate and no overspending appropriations
- Debt rating of (AA/Aa) or higher or no rated debt
- No audit findings
- A CMFO or CCFO
- Operating funds inline with COT Financial Metrics
- Adopted financial policies
- Timely filed audit and no modified opinions
- Budget and audit published on website



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Financial Excellence



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Local Government

This certificate is proudly presented to

on this day October 5th, 2026, in recognition of its timely adoption of a balanced budget for fiscal year beginning July 1, 2026.

The budget review was completed by the Office of the Comptroller of the Treasury and resulted in a resolution approved indicating the government's commitment to operate with a sound financial plan.



James E. Moorman
Comptroller of the Treasury

Annual Budget Certificate

Counties/Metros – 27%
Municipalities – 50%

tncot.cc/budgetcertificates



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Annual Budget Certificate

- The budget was adopted on or before the fiscal year end.
- The budget was filed with our office within 15 days of adoption.
- No issues of concern were raised during our review of the budget.
 - Budgets should be based on reliable estimates, structurally balanced, provide for cash liquidity, allow for adequate reserves, be monitored throughout the year, and be amended, as necessary.
- The local government is not currently under the oversight of the Tennessee Board of Utility Regulation.

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Budgeting

What is Budgeting Excellence?

- Early start and timely adoption
- Structural Balance
- Liquidity
- Reliable estimates
- Monitoring
- Timely amendments



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Debt Management

What is excellence in debt management?

- Affordability
- Debt coverage
- Long-term liability planning
- Debt management policy compliance

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Financial Management

What is excellence in financial management?

- No audit findings
- In compliance with CMFO Act or a CCFO/CPA on staff at each accounting office
- Demonstrates financial strength pursuant to the financial health metrics outlined in the Comptroller's debt and budget manuals

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Financial Oversight and Accountability

What is excellence in financial oversight and accountability

- Adopted and reviewed financial policies
- Not under TBOUR for financial distress or training noncompliance

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Financial Oversight and Accountability

What is excellence in financial oversight and accountability

Comptroller Award Eligibility Financial Policies	Also Required by TN Law or TN State Funding Board Guidelines
Counties, Metro Govts, Municipalities, Utilities	
Budget Adoption Calendar	Counties
Budget Monitoring	
Capital Asset Management	
Cash Management	Utilities
Cybersecurity Plan	Counties, Metro Govts, Municipalities, Utilities
Debt Management	
Fund Balance / Unrestricted Net Position	Counties, Metro Govts, Municipalities
Internal Control	Certain Investments
Investment	
Purchasing	
County and Metro Govts Only	
Audit Committee	
Utility Systems Only	
Rates and Fees Policy	



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Financial Reporting and Transparency

What is excellence in financial reporting and transparency

- Timely audit filing
- No significant deficiencies in audit
- No modified opinion related to financial accounting or reporting
- Financial data and budget published on website



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Financial Metrics



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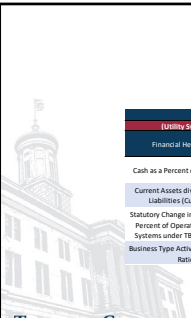
Financial Metrics				
For Governmental Operating Funds				
(General Fund, General Purpose School Fund, and Other Funds with Recurring Payroll Expenditures)				
Financial Health Metric	Description	No Concern	Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Cash divided by Current Liabilities (Cash Ratio)	Do we have the ability to pay short-term obligations?	Greater than 1.2x	0.7x to 1.2x	Less than 0.7x
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exists when cash reserves are low.)	Positive	Decrease of 0% to 2%	Decrease greater than 2%
For General Governmental Debt				
For Counties, Metro's, and Municipalities with a Property Tax General Governmental Debt as a Percent of Assessed Value*	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Municipalities without a Property Tax General Governmental Debt per household as a Percent of Median Household Income	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%

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Financial Metrics

For Utility Systems				
[Utility Systems Operated by a City/Town, County, Metro Govt, Utility District, Authority, or Joint Venture]				
Financial Health Metric	Description	No Concern	Concern	Business Concern
Cash as a Percent of Cash Expenses	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Assets divided by Current Liabilities (Current Ratio)	Do we have the ability to pay short-term obligations?	Greater than 1.3x	1.25x to 1.5x	Less than 1.25x
Statutory Change in Net Position as a Percent of Operating Revenue for Systems under TBQR Jurisdiction	Are my rates sufficient to cause a positive statutory change in net position?	Positive	N/A	Negative
Business Type Activity Debt Coverage Ratio**	Do we have revenues sufficient to cover debt service?	Greater than 1.20x	N/A	Less than 1.20x



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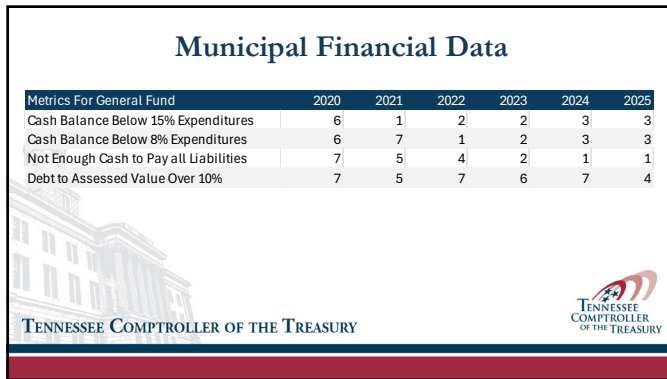
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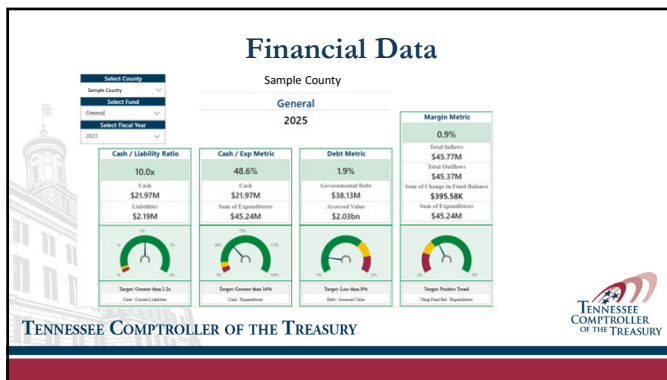
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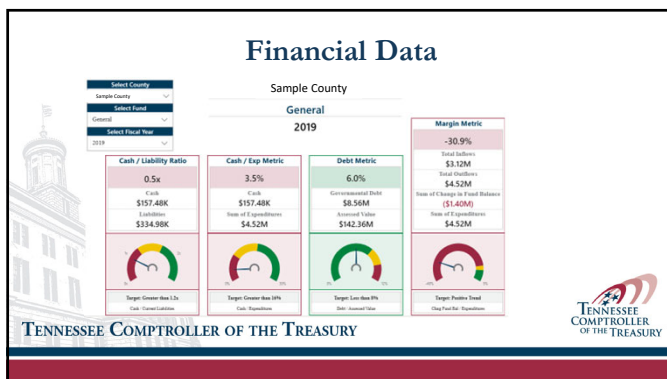
County Financial Data						
Metrics For General Fund	2020	2021	2022	2023	2024	2025
Cash Balance Below 15% Expenditures	6	2	0	0	0	0
Cash Balance Below 8% Expenditures	5	0	4	3	1	1
Not Enough Cash to Pay all Current Liabilities	2	0	1	0	0	0
Use of Fund Balance	19	4	14	23	20	24
Debt to Assessed Value Over 10%	4	1	1	0	1	2



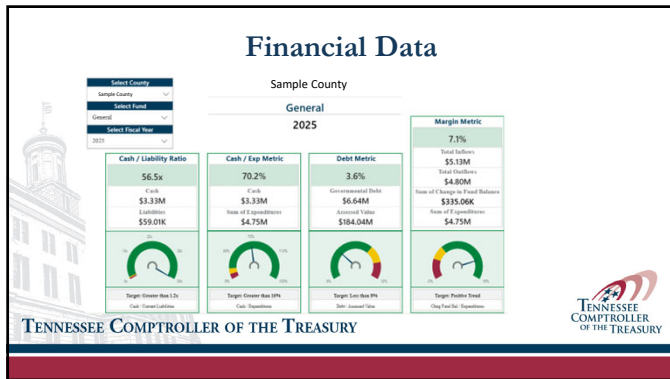
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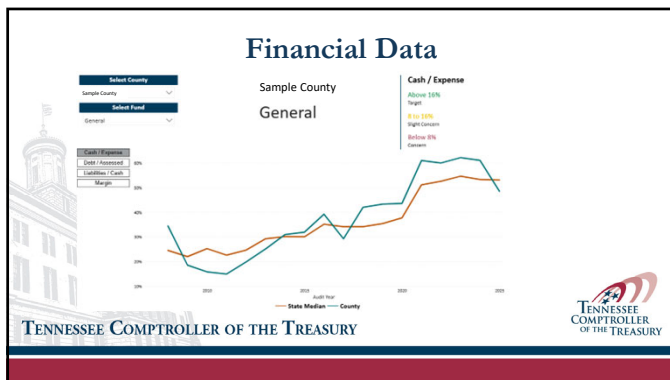
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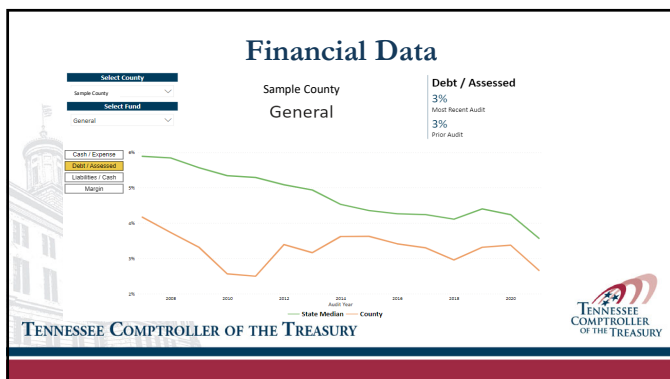
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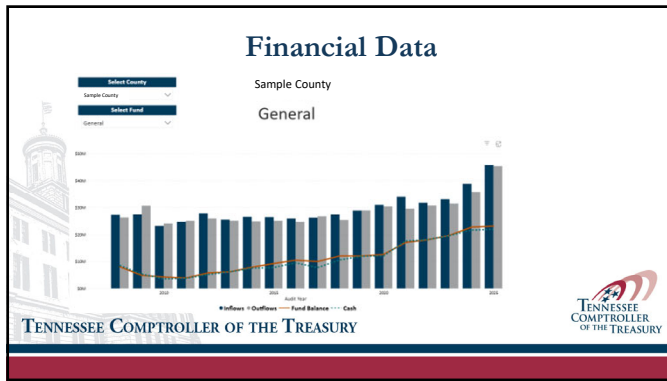
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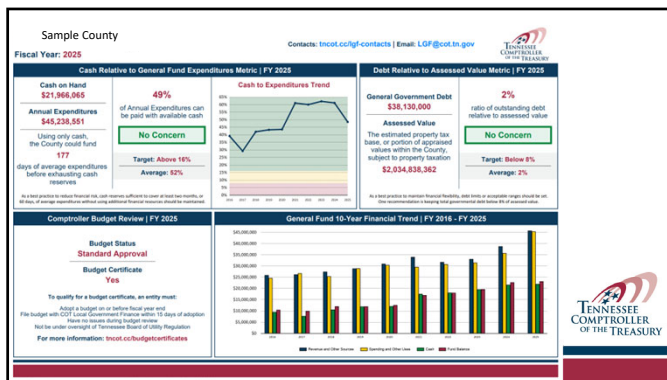
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Best Practices

Policies and Procedures

Fund Balance Policy

Structurally Balanced Budget

Cash Flow Management

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Best Practices – Fund Balance Policy

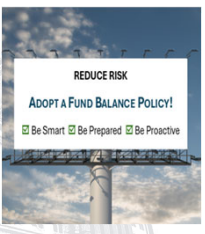
- Establishes guidelines for the level of unrestricted fund balance.
- Unrestricted Fund Balance = committed + assigned + unassigned
- Why unrestricted fund balance?
Constraints on spending, if any, are controlled by the local government. Unrestricted fund balance reflects expendable available financial resources.
- GFOA recommends a minimum of 2 months of operating revenue or expenditures for operating funds, such as the general fund.

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Best Practices – Fund Balance Policy



- Improves and maintains financial stability.
- Supports long-term financial planning.
- Protects from unforeseen budget situations: declining tax collection rates, loss of a major taxpayer, sudden changes in revenue or spending requirements, natural disasters, major infrastructure failures, and unexpected litigation.
- Reduces your local government's risks to revenue shortfalls and unanticipated expenditures.
- Strengthens credit rating. Rating agencies monitor unrestricted fund balance. The ability to intentionally maintain healthy reserves is a common characteristic of highly rated local governments.

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Best Practices – Structurally Balanced Budget



A budget is structurally balanced when **recurring** revenues are sufficient to pay **recurring** expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance indicate the budget is not structurally balanced. [T.C.A. § 9-21-403]

Source: Seven Keys to a Fiscally Well-Management Government

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Best Practices – Cash Management Policy

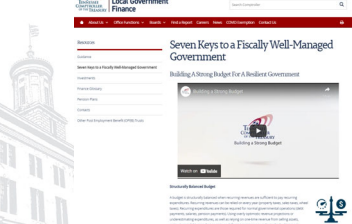


- Establishes guidelines for managing public dollars.
- Sets minimum amounts for cash reserves.
- Ensures liquidity so that cash is available when needed.
- Considers financing needs and addresses financial risks and costs, such as interest.
- Addresses interfund transactions: transfers, reimbursements, and loans.
- Ensures statutory restrictions on authorized investments are fulfilled.

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Seven Keys To A Fiscally Well-Managed Government



Seven Keys to a Fiscally Well-Managed Government

Building A Strong Budget For A Resilient Government

SEVEN KEYS TO A FISCALLY WELL-MANAGED GOVERNMENT

Key 1: Recurring Revenues

Key 2: Recurring Expenditures

Key 3: Reserve Funds

Key 4: Debt Management

Key 5: Interfund Transactions

Key 6: Capital Assets

Key 7: Financial Reporting

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Tncot.cc/7keys


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Seven Keys to a Fiscally Well-Managed Government

A	B	C
Building a Strong Budget for a Resilient Government ↓	Planning for Unknowns ↓	Planning for Tomorrow ↓
1. Structurally Balanced Budget 2. Cash Flow Management 3. Forecasting Budgetary Amounts	4. Rainy Day Reserve 5. Contingency Spending Plans	6. Long-Term Liability Plan 7. Multi-Year Financial Planning

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DIVISION OF LOCAL GOVERNMENT FINANCE

STEPS TO A WELL-MANAGED BUDGET

For more information, visit tncot.cc/guidance

The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's may be investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

BUDGET TO ACTUAL MONITORING
After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.

REVENUES
Revenues are meticulously forecast during the budget preparation phase, but as the

with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime; fuel and commodity purchases; repair and maintenance; and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.

CAPITAL EXPENDITURES
Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.

AMENDING THE BUDGET
Every item in this document has led to this. It is very

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Budget Monitoring

Budget monitoring is a formal set of processes for comparing **budget to actual results** and acting upon those results.

Local officials must not only **adopt** a balanced budget; they must **maintain** a balanced budget throughout the fiscal year. Monitoring is **key** to maintaining a balanced budget.

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Budget Monitoring

✓ Do

✗ Don't

- Adopt a formal process.
- Review budget to actual reports at least monthly.
- Amend **before** you spend.
- Include cash as part of your budget monitoring.

- Limit monitoring to expenditures.
- Amend the budget after the fiscal year end or amend for the entire year in a "June batch".
- Forget to look at the most recent audit to identify where you may have fallen short in the past.

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DIVISION OF LOCAL GOVERNMENT FINANCE

FREQUENTLY ASKED QUESTIONS

For more information, visit tncot.cel/guidance

In our publication "Steps to a Well-Managed Budget" we discuss the importance of monitoring and amending the budget as needed. In this follow-up publication we address questions we have received on this topic with best practice responses to those questions.

Q: HOW OFTEN SHOULD A GOVERNING BODY RECEIVE A BUDGET TO ACTUAL REPORT?

A: Our office recommends individual board members receive a monthly budget to actual report with updated financial information as of the most recent month for each budgeted fund.

Q: AS A BOARD MEMBER, WHAT SHOULD I LOOK FOR IN THE BUDGET TO ACTUAL REPORT?

A: The report shows year-to-date actual revenue and expenditures/expenses compared to the original budget you passed and the impact to fund balance (or net position). *Ask yourself:*

Keep in mind that some revenues and expenditures/expenses by their nature do not occur each month and monthly variances are expected. However, you want to be sure to pay attention and ask questions when budget variances are unexpected. Your finance staff will be a valuable support.

Q: WHAT OTHER FINANCIAL DATA SHOULD THE GOVERNING BODY RECEIVE AND HOW OFTEN?

A: At a minimum, and in addition to the budget to actual report, our office recommends the governing body receive:

- current cash balances for each fund
- updates from finance staff on the budget status for each fund, identifying any needed amendments to the budget

Additional recommended items include:

- updated cash flow forecasts
- multi-year historical financial data that shows the history of recurring and non-recurring revenue and expenditures/expenses, assets, liabilities, and fund balances
- multi-year historical data and ratios to support

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Comptroller's Award for Financial Excellence

FINANCIAL EXCELLENCE AWARD

LOCAL GOVERNMENT

City of Goodlettsville

First Utility District of Knox County

Hendersonville Utility District

Metropolitan Government of Nashville and Davidson County

Microfton Utility District

West Kentucky Utility District

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Questions?

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