

Public Finance & Banking

The role of the treasury, public finance, and banks in serving the public



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Introduction to Public Finance & Banking



*Definition and purpose, Why it Matters,
Key Objectives of Public Finance*



Definition & Why it Matters

- Definition & Purpose
 - Public finance is stewardship and management of a government's revenues, expenditures, and financing
 - Ensures the funding and maintenance of public goods (roads, education, defense)
 - Helps promote government stability, economic growth, and fairness within an administrative zone
- Why it Matters
 - Reasonably efficient and ethical financial management affecting every citizen's quality life
 - Poor quality and poor management of public finance leads to budget deficits, underfunded services, and/or public distrust

Key Objectives and Impact

- Key Objectives for this talk

1. Be able to have a basic understanding of public finance & government banking
2. Have a basic understanding of accounting and finance
3. Understand how governments manage and allocate funds
4. Gasp the economic government roles
5. Recognize the importance of trust, ethics, and transparency in financial roles

- Impact for Boys State

- Mobilize resources (taxes, fees) reasonably and efficiently
- Allocate spending to areas with the highest public value
- Maintain financial sustainability and economic stability over time

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Applying It To Boys State

- There are roles that are advisor focused or use elements of advocacy or advise executive roles... not to mention that you need to advocate for yourself during elections
- Roles like attorneys, public defenders, senators, house representatives must advocate for their clients, ideas, and party or public at large
 - Think about it, if you don't know how to properly advocate for yourself or your party that you are representing you aren't going to be very successful during the week → *go out there and learn!*
- What do you want to get out of the week?
 - I recommend focusing on one area that you can improve on and focus on executing perfectly or as well as you can
 - Two perfect examples:
 1. If you use a lot of filler like "um" or "like," work on eliminating it this week, or
 2. If you struggle with public speaking, go out there and practice
 - This week is perfect to give different strategies a try, be tactful and think through different ways to win over your peers & have fun with the week and your cohort
 - Now, let's talk about the details without getting to much into the weeds

Economic Departments & Roles in Government

Roles & Primary Responsibilities



Economic Departments in Arizona Government

Treasury

- **Roles:** Treasurer
- **Responsibilities:** Managing State Funds, debt management, central banking, program management, financial oversight, public works management

Corporation Commission

- **Roles:** Commissioner
- **Responsibilities:** Govern the offer and sale of securities and investment advisor; Licenses of investment advisers and their representatives; registers securities dealers and salesmen; regulates public utilities serving the state, including rates and charges for a reliable service; registers corporation and LLCs; enforces regulations on railroad and pipeline safety

Other Department

- **Roles:** Department of Revenue, Assessors' Office, Commerce Authority, Office of Economic Opportunity, Department of Administration, Department of Financial Institutions, Department of Real Estate, Department of Transportation

Role of the Treasurer

- Primary Responsibility
 - Prepare & Maintain the government's budget
 - Track income and expenditures across the departments
 - Ensure compliance with rules and prevent unauthorized spending
- Decision-Making & Leadership
 - Help prioritize competing funding needs (e.g., infrastructure vs health)
 - Recommend cost-saving measures or new revenue opportunities
 - Serve as the financial conscience of the government & enact vision of the executive
- Financial Reporting
 - Present clear, truthful updates to officials and the public
 - Use tools like financial statements, spreadsheets, and charts to communicate results
 - Identify trends and red flags really, suggest corrections

Role of a Government Advisor/Banker

- Primary Responsibility
 - An Investment banker connects individuals or firms that have money with individuals that want money
 - Assist in the execution of structuring securities for government entities
- Financial Reporting
 - Depending on the entity assisting (generally an auditor) they perform external audits

Basics of Finance & Government Banking



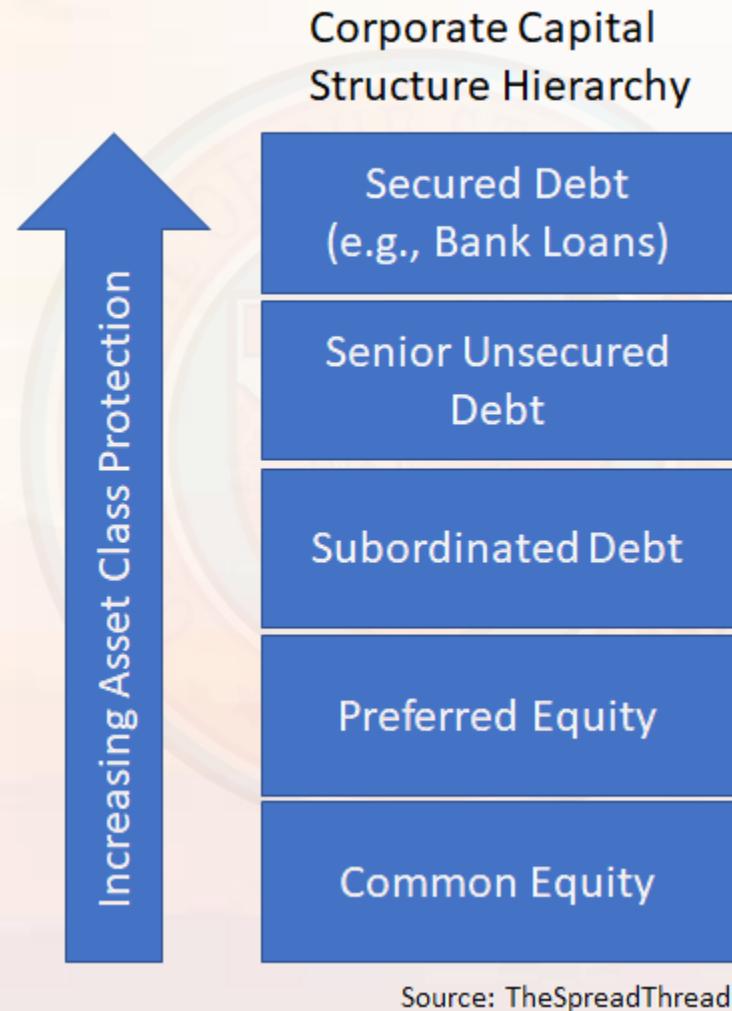
Accounting & Reporting Basics (Controls & Mechanics), Finance & Financing Overview, Government Banking Basics



Opportunity Cost Overview



Types of Securities



How Debt Works

- Face Value or Par Value: The value of the bond at maturity and the reference amount the bond issuer uses when calculating interest payments.
- Coupon Rate: The rate of interest the bond issuer will pay on the face value of the bond, expressed as a percentage.
- Coupon Dates: The dates on which the bond issuer will make interest payments.
- Maturity Date: The date on which the bond will mature and the bond issuer will pay the bondholder the face value of the bond.
- Issue Price: The price at which the bond issuer originally sells the bonds. In many cases, bonds are issued at par.
- Bond Types: Corporate Bonds, Municipal Bonds, Government Bonds, Agency Bonds
- Bond Variations: Zero-Coupon Bonds, Convertible Bonds, Callable Bonds, Puttable Bonds
- Bond Ratings: S&P, Moody's, Fitch Ratings – AAA to Default (CCC)
- Risk: Interest Rate Risk, Reinvestment Risk, Call Risk, Default Risk, Inflation Risk

Accounting & Reporting Basics

- Accrual accounting vs cash accounting
- There are some rules to accounting (it's basically the language of business):
 - There are debits and credits they must balance i.e. if you receive cash (debit) then you have a credit of an increase of equity
 - Assets = Liability + Equity
 - For more complicate rules (I can talk about it as to how to deal with it as a treasurer)
- GAAP is CRAP
 - Conservatism Principle:** Expenses and liabilities should be recognized as soon as possible, even if uncertainty exists, while revenues and assets should only be recognized if they are certain. The goal is to be open about future losses and cautious about acknowledging future gains.
 - Consistency Principle:** Once a company adopts an accounting principle or method, it should stick to it so that future changes are easily compared.
 - Cost Principle:** An asset, liability, or equity investment must be recorded at its original purchase cost.
 - Economic Entity Principle:** The financial transactions of a company and its owners should be separate and thus report separate accounting records and bank accounts for each.

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Accounting & Reporting Basics

- GAAP is CRAP, part 2
 - Full Disclosure Principle:** Companies must reveal all relevant and material information in their financial statements. For example, if there were significant write-downs, a breakdown of how depreciation was calculated should be provided.
 - Going Concern Principle:** Companies are able to defer the recognition of some expenses, such as depreciation, to later periods because it is assumed they will continue to operate in the future.
 - Matching Principle:** All expenses related to a revenue-generating transaction should be recorded at the time the revenue is recognized. That is, you can't boost your supposed profits by recording your gains at one time and the costs to get them at another.
 - Materiality Principle:** All information deemed reasonably likely to impact investors' decision-making should be reported in detail in a company's financial statements.
 - Monetary Unit Principle:** Financial statements should only record things that can be expressed in terms of a currency. This principle prevents companies from inflating their numbers with overly optimistic estimations for aspects of a business that are hard to ascribe value to, such as employee quality.
 - Objectivity Principle:** Accounting should be based on facts and objective evidence and free of bias and personal opinion.
 - Reliability Principle:** Only transactions supported by evidence, such as a receipt or invoice, should be recorded.
 - Revenue Recognition Principle:** Revenues should be recognized on the income statement in the period they are realized and earned—not necessarily when the cash is received.



Accounting & Reporting Basics

- GAAP is CRAP, part 2
 - Time Period Principle:** Companies should report their financial activities over a standard time period, such as quarterly or annually.
- Well, what is GAAP (Generally Accepted Accounting Principles)?
 - GAAP are the accounting principles that all regulated U.S. entities, including publicly traded companies, government agencies, and nonprofits, must follow. These rules were set and are periodically revised by the Financial Accounting Standards Board, an independent nonprofit organization whose members are chosen by the Financial Accounting Foundation.

Asset (Reported on the Balance Sheet)

- A resource with economic value that an individual, corporation, or country owns or controls with the expectation that will provide a future benefit
- Types of Assets Accounts:
 - Current Assets
 - Fixed Assets
 - Financial Assets
 - Intangible Assets

Liabilities (Reported on the Balance Sheet)

- Something a person or company owes that creates an economic downfall
- Types of Equities Accounts:
 - Retained Earnings
 - Common stock
 - Accumulated Deficit
 - Accumulated Paid in Capital

Equity (Reported on the Balance Sheet)

- The amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all the company's debt was paid off in the case of liquidation
- Types of Equity:
 - Retained Earnings
 - Common Stock
 - Preferred Stock
 - Accumulated deficit
 - Accumulated paid in capital
 - Accumulated compressive gain

Revenue & Expenses(Reported on the Income Statement)

- The money generated from normal business operations
- Types of Revenue Accounts:
 - Product sales
 - Service Sales
- Costs a company incurs to generate Revenue
- Types of Revenue Accounts:
 - Operating Expenses
 - Non-Operating Expenses
 - Capital expenditures

Income Statement Example

Apple Inc.		
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)		
(In millions, except number of shares which are reflected in thousands and per share amounts)		
	Three Months Ended	
	December 30, 2017	December 31, 2016
Net sales	\$ 88,293	\$ 78,351
Cost of sales ⁽¹⁾	54,381	48,175
Gross margin	<u>33,912</u>	<u>30,176</u>
 Operating expenses:		
Research and development ⁽¹⁾	3,407	2,871
Selling, general and administrative ⁽¹⁾	4,231	3,946
Total operating expenses	<u>7,638</u>	<u>6,817</u>
 Operating income	26,274	23,359
Other income/(expense), net	<u>756</u>	<u>821</u>
Income before provision for income taxes	27,030	24,180
Provision for income taxes	6,965	6,289
Net income	<u>\$ 20,065</u>	<u>\$ 17,891</u>
 Earnings per share:		
Basic	\$ 3.92	\$ 3.38
Diluted	\$ 3.89	\$ 3.36
 Shares used in computing earnings per share:		
Basic	5,112,877	5,298,661
Diluted	5,157,787	5,327,995
 Cash dividends declared per share	\$ 0.63	\$ 0.57
 ⁽¹⁾ Includes share-based compensation expense as follows:		
Cost of sales	\$ 252	\$ 229
Research and development	\$ 646	\$ 589
Selling, general and administrative	\$ 398	\$ 438

Balance Statement Example

TREEHOUSE		
STATEMENT OF FINANCIAL POSITION		
September 30, 2015		
(With Comparative Totals for 2014)		
ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 2,713,337	\$ 3,053,277
Investments	1,324,922	980,248
Current pledges receivable, net	2,056,445	1,349,314
Contribution receivable for rent	193,357	45,369
Contracts receivable	252,784	99,030
Inventories	239,615	296,017
Unemployment trust deposits	86,007	46,725
Prepaid expenses	131,529	32,589
Total current assets	6,997,996	5,902,569
Long-Term Assets		
Long-term portion of receivables, less current portion		
Pledges receivable, net	1,061,300	1,410,876
Contribution receivable for rent, net	240,946	
Furniture and equipment, net	468,397	53,867
Endowment investments	3,444,637	3,683,988
Other investments	401,134	423,764
Total long-term assets	5,616,414	5,572,495
Total assets	\$ 12,614,410	\$ 11,475,064
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 48,975	\$ 37,053
Accrued salaries and related costs	418,486	348,719
Total current liabilities	467,461	385,772
Net Assets		
Unrestricted	5,255,411	4,549,404
Temporarily restricted	3,446,901	2,855,900
Permanently restricted	3,444,637	3,683,988
Total net assets	12,146,949	11,089,292
Total liabilities and net assets	\$ 12,614,410	\$ 11,475,064

See Notes to Financial Statements

Government Banking Basics

- There are multiple perspectives, investment banker:
 - Bankers connect potential investors to finance certain types of debt (municipal bonds)
- In terms of the government:
 - Generate funding for public funding through multiple methods:
 - Bonds & other formal financing from bankers
 - Cash flow & revenue generation (taxes)
 - Federal Funding or Grants
 - The Treasury often works to execute the vision of the executive branch (ie public works figure out how that works)
 - Economic Forecasting & Budgeting
- Federal Reserve purpose & Federal Treasury purpose
 - Federal Reserve System vs Federal Open Market Committee – sets target rates



Public Finance in Practice

Accounting & Reporting Basics (Controls & Mechanics), Finance & Financing Overview, Government Banking Basics





Budgeting in Practice





Financing in Practice





Government Banking Basics



Trust & Ethics in Public Finance

Why Trust Matters, Ethical Threats & Temptations, Consequences of Ethical Failures, Building Ethical Culture



Why Trust Matters

- Public officials are stewards of taxpayer money – trust is earned through integrity
- Misuse or secrecy creates public cynicism and disengagement
- A trustworthy treasurer can attract more investment and cooperation from citizens



Ethical Threats & Temptations

- Favoritism: Choosing friends/family for contracts or funding
- Kickbacks: Accepting personal gifts in exchange for financial decisions
- Dishonesty: Hiding overspending or inflating costs to create slush funds

Consequences of Ethical Failures

- Damaged credibility and career loss
- Legal action: fraud, embezzlement, corruption charges
- Loss of resources and delayed public services

Building Ethical Financial Culture

- Require written justifications for all expenditures
- Conduct regular and independent audits
- Enforce clear policies on gifts, conflicts of interest, and financial disclosures

Key Ethical Values

- Integrity: Do the right thing, even under pressure or when no one is watching
- Transparency: Make financial decisions and records available and understandable
- Accountability: Own your choices and accept consequences for mistakes
- Stewardship: Treat public funds with care, as if they were your own – but with even more caution

Conclusions and Reflection

Summary points

- Public finance is not just technical – it's ethical and civic work
- The treasurer role carries real responsibility to the community
- Effective, ethical financial management is essential to a well-functioning democracy

Q&A

