

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

Is Your Enterprise Fund Financially Sound?

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LOCAL GOVERNMENT FINANCIAL REPORTING IN NC

NC General Statutes requires adherence to generally accepted accounting principles (GAAP) for annual external financial reporting

- GAAP represents national standardized reporting
- Necessary for participation in debt market and grant environment
- All local governments and public authorities, regardless of size, must adhere to requirement



FINANCIAL REPORTING (cont.)

Other quick facts

- Reports are due to the Local Government Commission no later than October 31st - for units that have a June 30th fiscal year-end
- Audits must be conducted by an independent certified public accountant, chosen by the entity's governing board
- Must have current audit to petition the LGC for debt approval



What Is an Audit?

- Local governments and public authorities are required by G.S. 159-34 to have an annual *independent* audit
 - Contracted by the governing board
 - Bid process recommended but not required
- **Auditors opine on whether or not the financial reporting follows GAAP, NOT on the financial condition of the entity**



Enterprise Funds – How are they used?

- What is an Enterprise Fund?
- Why does government use them?
- Why are there so many different statements in my audit?
- What do these statements really tell me?



Enterprise Funds – How are they used?

- Enterprise Fund – may be used to report any activity for which a fee is charged to external users for goods and services.
- Required for activity financed by debt secured by pledge of revenue from fees and charges for the activity i.e. revenue bonds
- Used when you want to treat the service as an “enterprise” or business



Enterprise Funds – How are they used?

- In NC, most common enterprise fund is Water and Sewer
 - Others include Electric Funds, Solid Waste, Airports, Public Hospitals, School Food Service, Public Transportation, and a few recreation facilities
- Intended to be self-supporting
 - Not intended to be subsidized by tax revenues; this includes transfers from the General Fund
- Enterprise Fund accounting helps measure **full cost** of providing the service
- Very similar to accounting for private business



Enterprise Funds – How are they used?

- Required Financial Statements
 - Economic Resources Measurement Focus, Accrual Basis of Reporting
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows



Enterprise Funds – How are they used?

- Required Financial Statements (cont.)
 - Financial Resources Measurement Focus, Modified Accrual/Budgetary Basis of Reporting
 - Schedule of Revenues and Expenditures
 - Capital Project Schedule of Revenues and Expenditures



Net Position

Used to be:

$$\text{Assets} - \text{Liabilities} = \text{Net Position}$$

Now:

$$\begin{aligned} &(\text{Assets} + \text{Deferred Outflows}) - \\ &\underline{(\text{Liabilities} + \text{Deferred Inflows})} \\ &= \text{Net Position} \end{aligned}$$



Fund Balance Available – Applies to Enterprise Funds Too!

- What IS fund balance available? What does it represent?
- Difference between Fund Balance Available and Equity in an Enterprise Fund
- How to calculate FBA in an Enterprise Fund when you don't have a modified accrual statement of net position
 - HINT: IT IS **NEVER** MORE THAN YOUR CASH BALANCE



Enterprise Funds – How are they used?

- What is the difference between accrual and budgetary reporting?
 - Accrual accounting records revenue when it is earned and expenses when they are incurred – when cash is received or disbursed is irrelevant
 - Statement of Net Position
 - Statement of Revenues and Expenses



Enterprise Funds – How are they used?

- Budgetary Reporting
 - Modified Accrual records resources when measurable and available and expenditures when paid and those that will be paid from current resources
- Advantages and disadvantages to both



Enterprise Funds – How are they used?

- Cash Flow Statement

- What does it tell me?

- Cash flow from operations

- Cash flows from noncapital financing activities

- Cash flows from capital financing activities



Enterprise Funds – How are they used?

- Budgetary Schedules
 - Primarily a management tool
 - Also report compliance with budget
 - Use of fund balance to balance budget



Enterprise Funds – How are they used?

- Enterprise Capital Project Funds
 - Budgetary schedule
 - Why does this fund “disappear” when you do the accrual statements?
 - Why do we use separate schedules and budgets for capital projects?



Enterprise Funds – How are they used?

- Interim reporting for Enterprise Funds
 - Budgetary report
 - Accounts receivable and payable
 - Other current assets and current liabilities
 - Cash



Fiscal Health – How is it Measured?

- Statutes charge staff to LGC with oversight responsibility and approval of most debt issued by local governments
- Analyze audit data to measure fiscal health of each entity
 - What data is key?



Cash from Operations

- Statement of Cash Flows – trying to gain insight if the Water Sewer Rates are covering operations and debt service
 - Is “Net Cash Provided by Operating Activities” positive?
 - If it is positive is there enough cash to pay debt service (principal and interest)?
- We look at three years or more history of this information



Quick Ratio

Does the unit of government have enough current assets available to pay current liabilities

Total Current Assets less inventories and prepaid assets

Select Current Liabilities (liabilities that will be paid with current assets)

*Revenue anticipation notes for USDA debt would be excluded from current liabilities.



Collections Data

- Days sales in receivables – a measure of how many days of sales revenue has not yet been collected
- Should match up closely with number of days in billing cycle
- If it exceeds number of days in billing cycle then have collections problem; also if number is trending up
- Defining billing cycle as number of days from first day after meters are read to day service is cut off for non-payment

CITY OF DOGWOOD			
DAYS SALES IN RECEIVABLES CALCULATION			
BILLED SALES REVENUE FOR FISCAL YEAR		3,650,000	
# OF DAYS IN THE YEAR		365	
PER DAY SALES REVENUE		10,000	
ACCOUNTS RECEIVABLE AT FISCAL YEAR END		720,000	
DIVIDED BY PER DAY SALES		10,000	
DAYS SALES IN RECEIVABLES		72	
BILLING CYCLE:			
DAY 1 - DAY AFTER METERS ARE READ			
DAY 60 - DAY SERVICE IS TERMINATED FOR NONPAYMENT			
NUMBER OF DAYS IN BILLING CYCLE		60	



Collection Information

- Need to make sure your deposit amount equals your average bill over the length of the billing cycle
 - If average bill for 30 days is \$85 and your billing cycle is 60 days, deposit needs to be \$170
- Need to charge a late fee, typically once bill is 5 days late
- Need to charge cost to disconnect or reconnect for applicable customers



Collection Information

- If you have customers with large outstanding balances, may have to use payment plans
 - Get everything in writing and get it signed; give customer a copy
 - Policy should set terms – 3 months, 6 months, 12 months maximum time, etc.
 - Must always require customer keep current bills current PLUS pay towards the old outstanding balance or balance will continue to grow
 - If don't follow terms of agreement, service is discontinued



Strategies for Maintaining Fiscal Health

- Transfers from Water and Sewer Fund
- **159G-37. Application to CWSRF, Wastewater Reserve, DWSRF, and Drinking Water Reserve - (b) Certification.** - The Division of Water Infrastructure shall require all local governments applying for loans or grants for water or wastewater purposes to certify that no funds received from water or wastewater utility operations have been transferred to the local government's general fund for the purpose of supplementing the resources of the general fund. The prohibition in this section shall not be interpreted to include payments made to the local government to reimburse the general fund for expenses paid from that fund that are reasonably allocable to the regular and ongoing operations of the utility, including, but not limited to, rent and shared facility costs, engineering and design work, plan review, and shared personnel costs.



Other Pertinent Information

- General Fund
 - Fund balance available
 - Use of fund balance to pay for recurring costs
 - Subsidizing other funds or being subsidized
- Government overall
 - Internal control environment
 - Compliance with GS 159, budgetary compliance
 - Status of repeat audit findings
 - Overall fiscal health



Other Pertinent Information

- Strong written, board approved policies are a must!
- Board support of policies, once adopted is a must!



Seeking Debt Approval

- LGC is focused on
 - Unit's ability to effectively manage its finances
 - Unit's ability to operate within the requirements of GS 159
 - Elected leaders understanding of unit's fiscal health and willingness to make changes as needed
 - Timeliness of audit



A Word About Pre-Auditing Projects

- What is pre-audit?
- Why do I have to worry about it?



Questions?

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