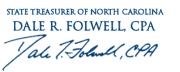


STATE AND LOCAL GOVERNMENT FINANCE DIVISION

Is Your Enterprise Fund Financially Sound?

Sharon Edmundson, MPA, CPA
Director, Fiscal Management



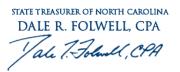


LOCAL GOVERNMENT FINANCIAL REPORTING IN NC

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



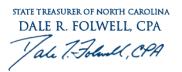


FINANCIAL REPORTING (cont.)

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?

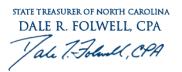
- Local governments and public authorities are required by G.S. 159-34 to have an annual independent audit
 - Contracted by the governing board
 - Bid process recommended but not required
- Auditors opine on whether or not the financial reporting follows
 GAAP, <u>NOT</u> on the financial condition of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





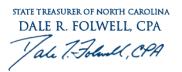
- What is an Enterprise Fund?
- Why does government use them?
- Why are there so many different statements in my audit?
- What do these statements really tell me?





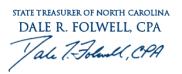
- Enterprise Fund may be used to report any activity for which a fee is charged to external users for goods and services.
- Required for activity financed by debt secured by pledge of revenue from fees and charges for the activity i.e. revenue bonds
- Used when you want to treat the service as an "enterprise"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





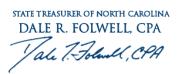
- In NC, most common enterprise fund is Water and Sewer
 - Others include Electric Funds, Solid Waste, Airports, Public Hospitals, School Food Service, Public Transportation, and a few recreation facilities
- Intended to be self-supporting
 - Not intended to be subsidized by tax revenues; this includes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





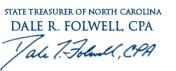
- Required Financial Statements
 - Economic Resources Measurement Focus, Accrual Basis of Reporting
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows





- Required Financial Statements (cont.)
 - oFinancial 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:

Assets – Liabilities = Net Position

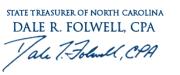
Now:

(Assets + Deferred Outflows) -

(Liabilities + Deferred Inflows)

=Net Position

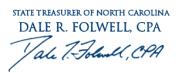




Fund Balance Available – Applies to Enterprise Funds Too!

- 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





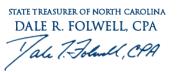
- What is the difference between accrual and budgetary reporting?
 - Accrual accounting records revenue when it is earned and expenses when they are incurred – when cash is received or disbursed is irrelevant
 - Statement of Net Position
 - Statement of Revenues and Expenses





- 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





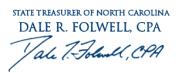
- Cash Flow Statement
 - O What does it tell me?
 - Cash flow from operations
 - Cash flows from noncapital financing activities
 - Cash flows from capital financing activities





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





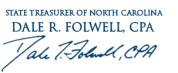
- Enterprise Capital Project Funds
 - Budgetary schedule
 - oWhy does this fund "disappear" when you do the accrual statements?
 - oWhy do we use separate schedules and budgets for capital projects?





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





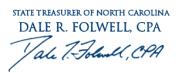
Fiscal Health – How is it Measured?

 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

oWhat data is key?

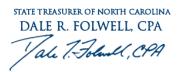




Cash from Operations

- Statement of Cash Flows trying to gain insight if the Water Sewer Rates are covering operations and debt service
 - ols "Net Cash Provided by Operating Activities" positive?
 - olf 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

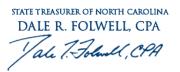
Does the unit of government have enough current assets available to pay current liabilities

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.



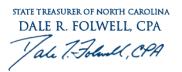


Collections Data

- 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

/OOD
ES CALCULATION
LO CALCOLATION
3,650,000
365
10,000
720,000
10,000
72
ONPAYMENT
60
ONPAYMENT

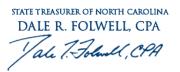




Collection Information

- 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

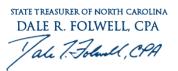




Collection Information

- 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

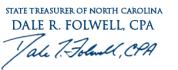




Strategies for Maintaining Fiscal Health

- 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

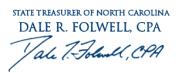




Other Pertinent Information

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

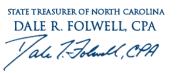




Seeking Debt Approval

- 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

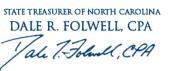




A Word About Pre-Auditing Projects

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





Questions?

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