

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
Local Government Commission (LGC) and  
Fiscal Health

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Coach Team, LGC Fiscal Management



# Agenda Topics

- Enterprise funds and cash flow statements
- How does LGC assess the fiscal health of a utility?
- Strategies for achieving and maintaining fiscal health



# 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 subsidized by tax revenues
- 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

Assets – Liabilities = Net Position

(Assets + Deferred Outflows) –  
(Liabilities + Deferred Inflows)  
=Net Position



# 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?

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



# How does LGC assess the fiscal health of a utility?

- Statutes charge staff of 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?
  - Look at example of LGC analysis



# 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 year 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)

\*Tax/Revenue anticipation bonds would be excluded from current assets.



## Other factors

- Accounts Rec. – size and aging
- Days sales in receivable
- Interfund transfers
- Trends over 3-5 years



# Communication With Elected Officials

- Budgetary compliance and Pre-Audit
  - If you budget more fund balance than you are allowed by law
  - If you have a pattern of overspending your budget
  - If you appear to be violating the pre-audit provisions of GS 159
- Liquidity measures in enterprise funds
  - Ratio of current assets to current liabilities
- Cash flow from operations and after debt service
- Internal control issues and other findings
- Other statutory compliance issues – FO bonding, illegal or inappropriate investments



# Strategies for Maintaining Fiscal Health

- Communication more important than ever
  - Management
  - Board
  - Department heads
  - Staff
  - Press
- **Current and accurate record-keeping**



# Strategies for Maintaining Fiscal Health

- Good billing and collection policy and practices
- Look at rates every year, internal if qualified but consider external experts
- Consider rate studies and rate modeling
- Conduct water audits; compare and reconcile finished water pumped to water billed. Find the explanation for material differences



# Strategies for Maintaining Fiscal Health

- Monitoring budget
  - Amend as needed **before** funds are **obligated**
  - Watch revenues – amend as necessary
- Tighten or continue firm enforcement of purchase orders – be mindful of open orders – have to track somehow
- Strict enforcement of pre-audit for purchases and for contracts
- Bid contracts and services
- Travel
- Training



# 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.



# Training Available

- SLGFD staff saw a need for training to be available locally for finance staff
- Small towns may not have trained accountants acting in finance roles
- Approached NC Community College system about developing a training course
- Piloted in three campuses in Spring, 2017
- Now available to all 57 campuses if they choose to offer it
- ACC 3240



# Training Available

- Class is designed for someone with little to no accounting training
- Very basic, very hands on but will not teach the student accounting
- Half online, half live classroom
- Very positive feedback from pilot sessions
- \$125, no textbook to buy, working on a handbook for Fall, 2018



# Questions?

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