

Rural Water Systems – Financial Management and Governance

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NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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Agenda

- **Financial Management Practices**
 - Assessing Financial Condition: Water-Sewer Ratios/Data
 - Fund Revenue and Spending Strategies
 - Fiscal Control Practices
- **Governance**
 - Planning and Policy setting
 - Budgeting
 - Monitoring

Sources of data:

- **Management's Discussion and Analysis (MD&A) – part of each unit's financial report**
 - Required by GASB Statement No. 34
 - Appears prior to unit's financial statements
 - 8-10 pages of what happened, why, where unit is and how it got there
 - Uses tables and charts
- **DST Website: Memo #2017-17**

Financial Management Practices

Assessing Financial Condition: Water-Sewer Ratios/Data

- **Operating income or loss. If a loss, why?**
 - Revenue less than budgeted?
 - Spending more than budgeted?
- **Positive or negative cash flow from operations**
- **Water-sewer reserves fund balance**
 - Legally “available” fund balance
 - Rate stabilization fund
 - Capital reserves

- **Current assets to current liabilities**
 - Ratio should be greater than 1.
 - If not, may develop cash flow difficulties
- **Money owed by water/sewer funds to other funds**
 - Should not be borrowing from other funds to cover operating costs
 - If a loss, fees aren't high enough or poor collections

Trends over time, e.g., last five years

- Number of customers
- Water consumption
- Total operating revenue
- Total operating spending
- Spending for debt service
- Spending for capital assets from non-debt sources

If water-sewer system is operating below capacity

- Use balance to buy time, avoid possible rate increase
- Require customers in service area to hook up
- Extend service to new customers or sell capacity
- Check metering & billing
- Ensure bills are collected
- Evaluate, adjust rate structure: volume discounts, account service charge, tap fees, etc.
- Evaluate, raise water-sewer rates
- Merge or sell system to larger nearby city

If water-sewer system operating near or at capacity

- Adjust rate structure to encourage conservation
- Buy capacity from nearby provider
- Expand capacity
- Review transfers to other funds, continue only needed ones
- Make sure rates and revenues cover costs

Fiscal Control Practices: Finance Director

- **Statutory position (G. S. 159-24)**

Duties include (G. S. 159-25):

- Accounting
 - control of spending
 - collections & banking
 - reporting, etc.
- **Provide training & resources as needed.**
 - **Position must be bonded. Protect unit. Minimum of \$50,000**
 - **Organize procedures to provide segregation of duties**
 - **Any employee handling \$100 or more must be covered by blanket bond**
 - **See DST website for LGC Memo #2015-15, a revision of Memos #568 and #569).**

Governance: Planning and Policy

- **Policies**

- Operational Benchmarks
 - Days Cash; Quick Ratio
 - Days Receivable
 - Debt Service Coverage Ratio
 - Reserves – operating & capital
- Provision of Services – who is served?
 - Health and Safety Reasons
 - Economic Development Reasons

- **Capital Improvement Plan**

- Long-term
- 5 year with rolling updates

Governance: Budgeting

- **Board provides direction for annual budget preparation**
 - Does the financial condition require adjustments to revenues or expenditures to achieve or maintain policy objectives/targets?
 - Are provision of service mandates being achieved?
 - Cash & reserve balances
- **Be conservative in estimating revenues**
- **Consider contingency appropriation in budget**
 - Cannot exceed 5% of all fund appropriations
 - Important when fund balance is small

Governance: Monitoring

- **Board should get monthly or quarterly financial reports**
 - Budget to actual comparisons:
 - Are revenues coming in as expected?
 - Is spending in line with expectations?
 - What are the problems?
 - Cash & reserve balances
 - Current assets & current liabilities
 - Cash balance alone is not enough
- **Are budget amendments needed?**



Questions?

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