

## GREENVILLE WATER

POLICY NO. FIN-13DATE: 12/01/2015SUBJECT: Accounting, Auditing and Financial Reporting Policy

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#### **I. Basis of Accounting**

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles applicable to state and local governments. Greenville Water's accounting and reporting policies conform to these generally accepted accounting principles (GAAP).

In order to have accounting information that is compatible with the needs of management, the modified accrual basis is used for budgetary accounting and financial planning purposes. However, for annual financial reporting purposes, needed adjustments will be made at year end to prepare external financial reports on the full accrual basis of accounting in conformity with GAAP.

#### **II. Accounts Receivable**

##### **A. Accounting (Collection Efforts)**

Greenville Water will seek to maximize its collections using the available legal means at its disposal to collect delinquent accounts prior to them being written off. Accounts Receivable is an asset account reflecting amounts owed to Greenville Water.

1. Greenville Water will use proper internal control in the handling of monies and make timely deposits.
2. Greenville Water will properly and timely record the various receivables and provide for the appropriate collection methods.
  - a. Collection efforts include:
    - Collecting existing debt by searching for old balances and requiring payment prior to establishing new accounts.

- Participation in a debt collection program.
3. Greenville Water is to collect all outstanding charges for miscellaneous services. If payment is not received within 30 days of the due date, the account may be sent to an outside agency for collection. The following process/requirement must be met as part of the collection policy.
- a. The process:
- When a customer has moved a final bill is generated, and payment is due within 21 days.
  - Final bill account balances are transferred to the active account for customers who have an active Greenville Water account.
  - Final bill invoices 30 days past due are considered for collection.

Collections may be submitted to the South Department of Revenue (DOR) for participation in the setoff debt program. This program attempts to garnish tax refunds for unpaid utility bills. Collections may also be submitted to the Government Enterprise Accounts Receivable (GEAR) program. The GEAR program is a more flexible and comprehensive debt collection service that includes garnishment of wages and state individual income tax refunds, use of tax liens, and levy of bank accounts. Collections may also be submitted to private collection agencies.

4. All unpaid accounts in the collection process after one year will be written off. Annually, Accounting will prepare a list of these accounts for management action.

### III. External Audit

#### A. Auditor Responsibilities to the Commission

Greenville Water shall cause an annual audit to be made of the books and accounts. Auditors are accountable to the Commission and will have access to direct communication with the Commission if the staff is unresponsive to auditor recommendations or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.

#### B. Auditor Rotation

Greenville Water has deemed it advantageous to appoint an auditor for a five-year term with such appointment to be rotated automatically to another auditor at the end of five years.

The audit engagement shall be for three years, subject to annual review and approval by Greenville Water, the satisfactory negotiation of terms (including a price acceptable to both Greenville Water and the selected firm) and the availability of funding. Greenville Water shall have the right to extend the engagement for two (2) consecutive terms of one year each.

#### C. Auditor Selection Criteria

The Auditor shall be selected on the basis of professional competence and experience using the following criteria:

1. The Auditor shall be a certified public accountant licensed to practice within the State of South Carolina.
2. The Auditor shall have an understanding of the needs of Greenville Water and its plans for the future.
3. The Auditor's approach shall be thorough, comprehensive, and tailored to Greenville Water's needs.
4. The Auditor's staff to be assigned to the audit shall have specialized governmental auditing training and should have experience in auditing municipal utility systems.
5. The audit firm shall have a demonstrated commitment to a state and local government audit practice. The firm shall have the appropriate resources available to apply to the audit engagement.
6. The fees proposed by the audit firm shall be reasonable in view of the type and quality of services the firm will be providing. An auditor shall not be selected solely on the basis of a fee. Auditing is a professional service that should not be purchased strictly on the basis of the lowest cost.
7. The audit firm shall have a local office in Greenville, SC.

#### IV. Capitalization Policy

Capital outlay or fixed asset is used to refer to system infrastructure, land, buildings, equipment, and improvements other than buildings acquired for use in the provision of water service to customers. It is incumbent upon Department Directors to maintain adequate control over all of a department's assets, including its fixed assets, to minimize the risk of loss or misuse.

Not all fixed assets are required to be reported on the balance sheet. Specifically, fixed assets with extremely short useful lives and fixed assets of small monetary value (less than \$2,500) are properly reported as an "expense" in the period in which they are acquired. Fixed assets that are reported on the balance sheet are said to be "capitalized" and must meet the capitalization criteria established.

Capitalization is primarily a financial reporting issue. While it is essential to maintain control over all fixed assets, there are more efficient means than capitalization for accomplishing this objective in the case of smaller dollar-value fixed assets. Practice has demonstrated that fixed asset systems that attempt to incorporate data on numerous smaller fixed assets are often costly and difficult to maintain and operate.

The following criteria are established for inclusion in the capital outlay category:

1. Fixed assets should be capitalized only if they have estimated useful life of at least one year following the date of acquisition.
2. Fixed assets' capitalization threshold should be applied to individual fixed assets rather than to groups of fixed assets (e.g., desks, tables, software, etc.).
3. The capitalization threshold for each individual item is \$2,500.

Department Directors should exercise control over their non-capitalized fixed assets by establishing and maintaining adequate control procedures at the departmental level.

## V. Financial Reporting

External Financial Reporting – each year a Comprehensive Annual Financial Report (CAFR) will be produced and made available on Greenville Water website. The CAFR will be prepared in compliance with GAAP.

Internal Financial Reporting – Monthly financial reports will be presented to the Commission after the close of each month. Such reports will enable the Commissioners to be constantly informed of the financial status of Greenville Water. Internal Financial Reporting will be presented using the modified accrual basis of accounting.

Internal Financial reporting (Budget to Actual Reports), detailing monthly and year-to-date expenses from each department's budget, is distributed on a monthly basis.

The primary purpose of this report is to enable those responsible with each department to monitor expenditures against budget line items and initiate appropriate action. Department heads are responsible for proper planning of expenditures not to exceed department budgets. If at any point it appears the budget of one of its major expense categories (personnel, operating, capital, etc.) will be exceeded prior to year-end, the department head will immediately present to the Chief Financial Officer proposed actions to reduce or eliminate planned expenditures to remain within budgeted totals, and/or request budget changes within their current approved budget.