



State Fiscal Affairs: County Government Finances

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State Fiscal Affairs: County Government Finances – Overview

Many Tennessee counties have done well managing resources through the recent difficult economic time, yet a number of counties continue to struggle financially.



State Fiscal Affairs: County Government Finances – Overview

- This presentation focuses on:
 - Financial condition of Tennessee county governments
 - Financial management in Tennessee counties
 - The audit process
 - Recent audit results
 - Audit committees
 - Challenges facing county governments in Tennessee



State Fiscal Affairs: County Government Finances – Overview

- A county government is not the same as private business.
 - Public trust is involved
 - Counties have the power to tax
 - Taxpayers can limit this power by exercising the privilege of voting



State Fiscal Affairs: County Government Finances – Overview

These differences do not mean counties should not utilize sound business practices and financial management.



State Fiscal Affairs: Financial Condition of County Governments

- If county government was a business, it would be a big one.
- Even the smallest county in Tennessee has total revenues of approximately \$12.5 million.



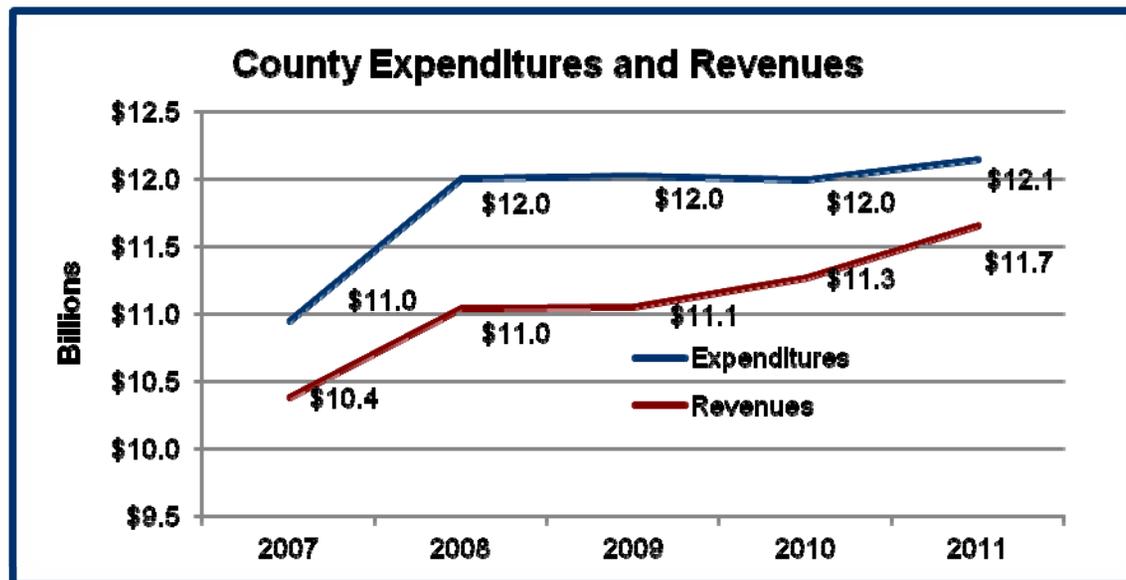
State Fiscal Affairs: Financial Condition of County Governments

- Total revenues for all 95 Tennessee county governments totaled approximately \$11.65 billion for fiscal year June 30, 2011.
- Total expenditures for the same period were approximately \$12.14 billion.



State Fiscal Affairs: Financial Condition of County Governments

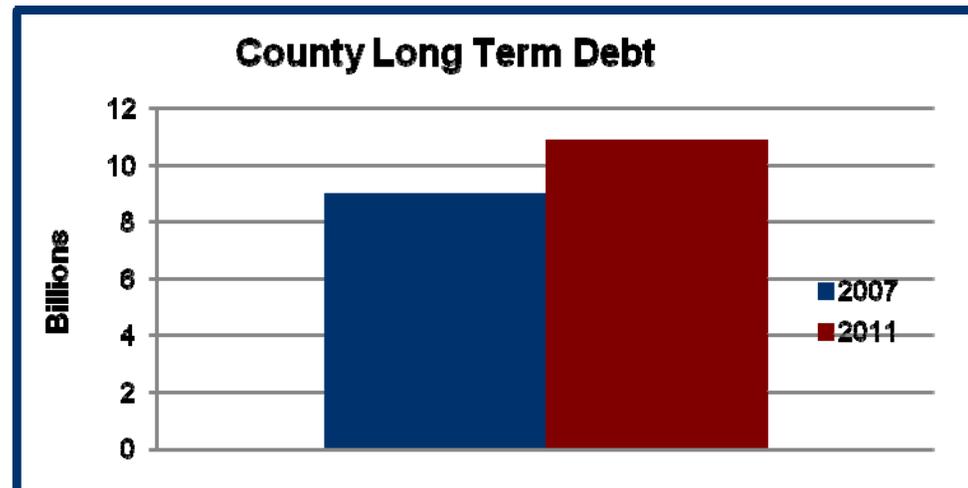
Counties spent approximately \$500 million more than they received in general and operating revenues.





State Fiscal Affairs: Financial Condition of County Governments

- Total county related debt in Tennessee increased by more than \$1.4 billion from 2007 to 2011.
- Many county governments are deferring debt principal payments and other obligations to future years.
- County governments are using reserve funds.





State Fiscal Affairs: Financial Condition of County Governments

- Tennessee counties have avoided the bankruptcy crisis seen elsewhere around the nation.

- While this is good news, several concerns remain:
 - Substantial increases in long-term debt
 - Deferring current obligations for future years (kicking the can down the road)
 - Significant liabilities for post-employment benefits, such as health care
 - Sluggish revenue growth
 - Negative fund balances (expenditures that are greater than revenues)



State Fiscal Affairs:

History of Financial Management in Tennessee Counties

- Tennessee counties operate accounting, budgeting, and purchasing activities under the provision of:
 - General Statute
 - Private Act
 - 1957 Fiscal Control Acts
 - 1981 Financial Management System Act



State Fiscal Affairs:

History of Financial Management in Tennessee Counties

- 55 years after the first Act and 31 years after the most recent Act many county governments still are not using a modern form of accounting.
- Many Tennessee counties do not have a financial management staff prepared to handle the complicated financial issues facing county governments.



State Fiscal Affairs:

History of Financial Management in Tennessee Counties

Simply put, the complex issues that county governments face today were not issues in 1957 or 1981.



State Fiscal Affairs: The Process of County Government Audits

- Audits of county governments in Tennessee incorporate complex accounting principles and auditing standards.
- For the past two years, and for the first time in memory, the audits of county governments have met the federal deadlines by ensuring the completion of all 95 county audits.



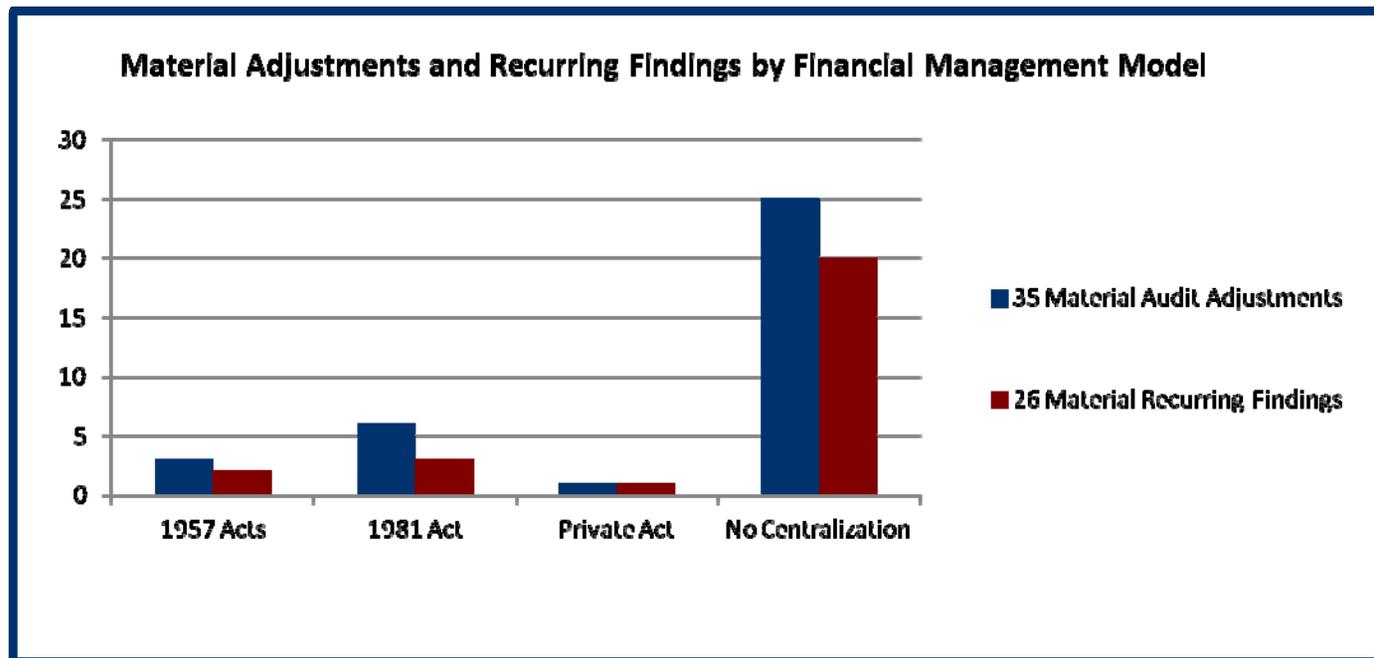
State Fiscal Affairs: Recent Audit Results of County Governments

- The Comptroller's Office reported outstanding cash shortages of over \$900,000 in 41 counties for the fiscal year ended June 30, 2011.
- Audits conducted or reviewed disclosed fund deficits totaling over \$110 million in governmental funds in 14 counties.
- Audits also reflected net asset deficits totaling over \$83 million in enterprise and internal service funds in 14 counties.



State Fiscal Affairs: Recent Audit Results of County Governments

The vast majority of audit findings and adverse opinions are reported in counties that do not have a modern system of accounting, budgeting, and purchasing.





State Fiscal Affairs:

County Governments Finances – Audit Committees

- The repetitive nature of the Comptroller's reported audit findings indicates that counties are either unwilling or unable to address these problems or deficiencies.
- The Comptroller's Office recommends as a best practice that all counties establish an audit committee.



State Fiscal Affairs: Challenges Facing County Governments

- As the economy continues to recover, county governments are still faced with fiscal challenges:
 - Less revenue
 - Rising demands for services
 - Federal and state mandates
 - Unpopular property or sales tax increases
 - Shrinking fund balances
 - Refunding debt
 - Deferring obligations to future years



State Fiscal Affairs:

County Governments Finances – Closing Thoughts

- Counties in Tennessee are trying to do the best they can during these difficult times, and many are doing well.
- Qualified financial and accounting personnel are essential to the health of county government finances.
- As credit rating agencies are increasingly linking the health of county government finances to the financial condition of the state, it is essential for state government to help protect its own health by assisting these local governments.



State Fiscal Affairs:

County Governments Finances – Closing Thoughts

The heavy demands placed on governments require us all to modernize our processes.



State Fiscal Affairs:

County Governments Finances – Closing Thoughts

The time is now for county governments to upgrade their financial systems.



State Fiscal Affairs

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