How to Read Your Audit Report

Massachusetts Collectors
Treasurers Association

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Contents

- Presenter:
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- What do financial statements represent?
- Who are the users of financial statements?
- Treasurer's Role
- Financial Statement Contents

What Do Financial Statements Represent

- Snapshot of where the community stands at the end of the fiscal year
- Disclosure of revenues and expenditures for a fiscal year and how well a community performed
- MD+A describes current year to prior year and why changes occurred
- Footnote disclosures discuss major financial aspects of the community
- Budget to actual – how well did we manage ourselves

Who Are The Users Of The Financial Statements

- Bond Rating Agencies
- Management
- Oversight Agencies
- Other Interested Parties

Bond Rating Agencies

- Moodys
- Standard and Poors
- Fitch

Bond Rating Agencies

- Assess credit worthiness
- Assign rating
- Part of bonding process and critical component to the cost of financing

Management

- Finance Committee
- Town Manager/Administrator
- Board of Selectmen
- Finance Director/Town Accountant
- Treasurer/Tax Collector
- School Business Manager
- Superintendent
- School Committee

Management

- Assess trends
- Maintain financial policies
- Develop financial forecasts with focus on structural balance
- Review budget results

Oversight Agencies

- Department of Revenue
  - are there unreported deficits?
  - are they consistent with schedule A and balance sheet?
  - is reporting timely and accurately?

- Various Federal and State Agencies
  - compliance with grant regulations

Other Interested Parties

- Bond investors
- Banks
- Taxpayers

Treasurer's Role

- Treasurer should understand financial statements
- Treasurer is a key contact for bond rating agencies
- An important valuation metric is the qualifications and sophistication of Management. Understanding your financials helps in this regard

  - hanging up to ask your auditor and getting back to Bond Rater the next day is not desirable

Financial Statement Contents

- Independent Auditor's Report
  - audit opinion
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplementary Information

Basic Financial Statements

- Government-Wide Financial Statements
- Fund Financial Statements
  - governmental funds
  - proprietary funds
  - fiduciary funds
- Notes to Financial Statements

Major Financial Statement Components

- Unassigned Fund Balance (reserve ratio)
- Cash (liquidity)
- Statement of Revenues and Expenditures (solvency)
- Enterprise Funds
- Budget to Actual Report (compliance)
- Footnote Disclosures – Debt (liquidity)
- Footnote Disclosures – OPEB (management of long term liabilities)

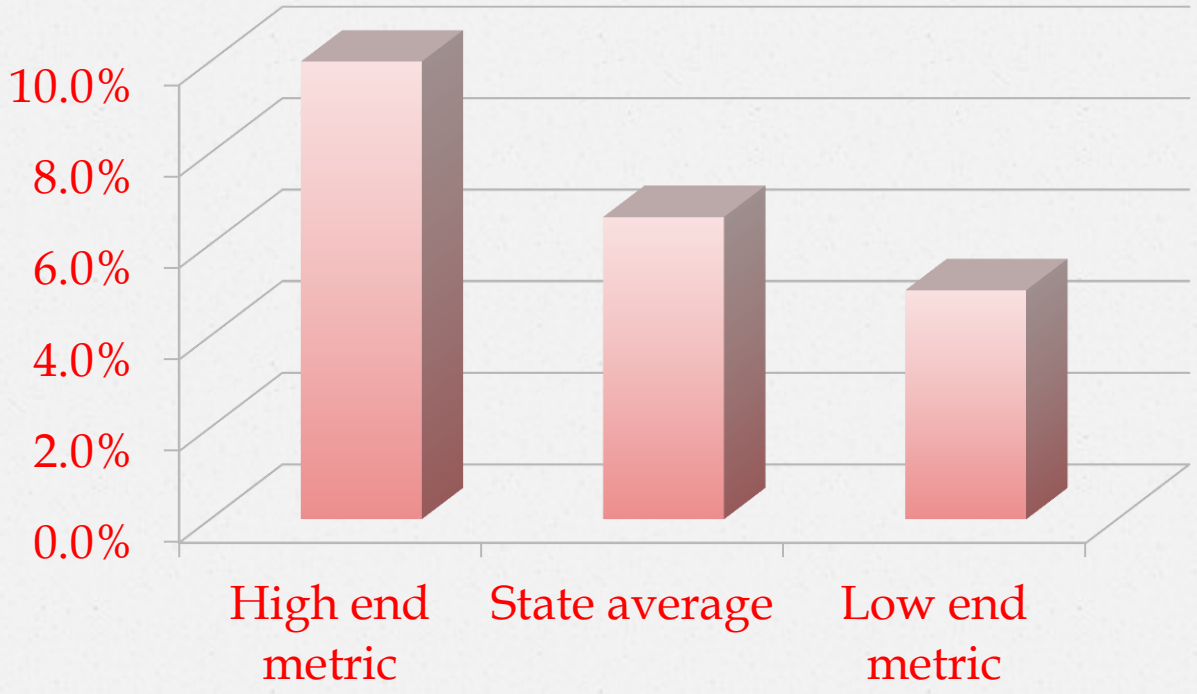
Unassigned Fund Balance - Reserve Ratio

- GASB 54 defines components of fund balance
- Unassigned Fund Balance = General Fund undesignated fund balances plus General Stabilization Fund
- Unassigned Fund Balance divided by budgeted expenditures = reserve ratio
- Important to bond rating

Unassigned Fund Balance - Reserve Ratio

- > 10% = wish list – consider funding long term liabilities such as OPEB or Capital to avoid borrowings
- 10% = high end metric
- 6.7% = State average
- 5.0% = low end metric
- < 5.0% = Red Flag area

Unassigned Fund Balance - Reserve Ratio



Cash

- Is the community liquid?
- Can we meet current obligations without stress?
- Should we consider moving to quarterly billing verses semi-annual?
- What are our investment policies (GASB 40)?
- Is cash insured or collateralized? – footnote disclosure

Statement of Revenues and Expenditures

- Do revenues and other financing sources exceed expenditures?
- Are we experiencing deficits?
- How do we compare to the previous year?
- How do we compare to other communities?
  - Electronic Municipal Market Access (EMMA) www.emma.msrb.org

Enterprise Funds

- Do Enterprise Funds cover the cost of the activity?
- Are there deficits that need to be raised?
- Is debt covered by user charges?

Budget to Actual Report

- How did we manage our expenditures?
  - what were our turn-backs
- Did revenues exceed forecast?
- Do we have deficits we need to raise?
- How much did we rely on use of one-time funds?

Footnote Disclosures - Debt

- Important to the bond rating agencies
- Are we over leveraged (general rule is net debt after subsidies should be around 5% of budget)
- What portion of debt is reimbursed by State (MSBA, MWPAT, etc.)
- Use to plan future capital needs

Footnote Disclosures - OPEB

- Management of long-term liabilities is becoming a critical component of the bond rating process
- Does Town have an OPEB plan in place?
- Has Town established an OPEB trust? (MGL Ch. 32B, Sec. 20)
- Is Town funding OPEB liability?

Questions