Understanding Your Financial Statements

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Course Outline

- What Is A Special District?
- Types Of Special Districts
- Who Uses Governmental Financial Statements?
- Financial Statement Presentation
- Components And Relationships Of Governmental Financial Statements
- Management's Discussion And Analysis
- Independent Auditors' Report

What Is A Special District?

- Defined by Colorado Revised Statutes (C.R.S.)
- Establishing document - service plan
- Consists of elected Board of Directors
- Must follow C.R.S. budget laws
Types Of Special Districts

Most common types of districts
- Metropolitan districts
- Ambulance districts
- Fire protection districts
- Water and sanitation districts
- Park and recreation districts

Who Uses A Government’s Financial Statements?
- Bond rating agencies
- Bond trustees
- Federal government (if federal grants are received)
- GFOA
- State Auditor
- Board of Directors
- Management
- Citizens

Financial Statement Presentation
- Government-wide/governmental Funds typically presented by:
  - Metropolitan districts
  - Fire districts
- Single-purpose entity/enterprise funds
  - Ambulance districts
  - Water and sanitation districts
  - Parks and recreation districts
Components and Relationships of Governmental Financial Statements

Basic Financial Statement Layout

Financial Flowchart
Government-Wide Financial Statements

- The weird statement that reads expenses and revenues left-to-right instead of normal up and down!
- Governmental activities:
  - Consists of activities recorded in governmental funds and internal service funds
- Business-type activities:
  - Consists of activities recorded in enterprise funds

Financial Flowchart (cont.)

Funds And Fund Accounting

- A “fund” is a fiscal or accounting entity with a self-balancing set of accounts.
- Represents a portion of the government’s financial position or activities that is segregated for a specific purpose or in accordance with special regulations or restrictions.
- A fund contains all of the cash, other financial resources, and related liabilities and activity associated with the objective of the fund.
Types Of Funds

- Governmental Funds: Account for the activities typically associated with a government (e.g., levying and collecting taxes, providing services)
- Proprietary Funds: Account for activities that charge fees to users with the intent that these user charges will offset all expenses
- Fiduciary Funds: Account for activities where the government holds assets for others in a fiduciary capacity

Financial Flowchart (cont.)

<table>
<thead>
<tr>
<th>Governmental Funds</th>
<th>Proprietary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation to Government-Wide</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Financial Flowchart (cont.)

<table>
<thead>
<tr>
<th>Governmental Funds</th>
<th>Proprietary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Cash Flow Statement</td>
</tr>
</tbody>
</table>
Management Discussion And Analysis
Now’s Your Chance!

Background
- GASB 34 - Basic Financial Statements - and Management’s Discussion and Analysis (MD&A) - for State and Local Governments
  - Established the requirement for MD&As
  - Required the MD&A as required supplementary information
  - Meant to be a readable analysis of the government’s financial activities
Management’s Discussion And Analysis

- Allows management to discuss the activity in the government.
- Focused on current-year and prior-year information in an easy-to-read document.
- Provides more information on trends or operations in summarized, condensed format.

Eight Components Of The MD&A

1. Brief description of the basic financial statements, the relationships of the statements to each other and the significant information they provide.
2. Condensed financial statement information derived from the government-wide financial statements.

Eight Components Of The MD&A (cont.)

3. Analysis of net position and results of operations. Have conditions improved or deteriorated?
4. Analysis of balances and transactions of major individual funds.
5. Analysis of significant variations between original budgeted amounts and final budgeted results for the General Fund.
Eight Components Of The MD&A (cont.)

6. Description of significant capital asset and long-term debt activity.
7. Description of currently known facts, decisions and conditions that have a significant effect on net position or results of operations.
8. Modified approach only - infrastructure assets - additional information

Common Deficiencies In MD&A

- MD&A should be after independent auditors’ opinion
- Too much information is included above the eight required elements.
- Unnecessary information is included in the initial description of the financial statements.

Common Deficiencies In MD&A (cont.)

- Only dollar and percentage changes are presented, but not the reason for the change.
- Failing to present all of the required information in the summarized government-wide schedule.
- Government should focus on graphs about changes from the prior year rather than revenue and expenditures by percentage.
Common Deficiencies In MD&A (cont.)

- Failing to present three years worth of information if comparatives are included (for single purpose entities only).
- Putting information in the MD&A that is not also discussed in the footnotes.
- If significant items are missing from the MD&A, this must be disclosed in the auditors’ report.

Management’s Discussion And Analysis

*The aim of argument, or of discussion, should not be victory, but progress.*

Joseph Joubert

Now Discuss

- Use the opportunity to provide information to citizens and the Board of Directors for additional support on taxpayer initiatives.
- Don’t forget to include accomplishments reflected in the operations.
Questions?

Independent Auditors’ Report

- What does the Independent Auditors’ Report cover?
  - Basic Financial Statements
  - Management’s Responsibility
  - Auditors’ Responsibility
  - Required Supplementary Information
  - Supplementary Information