



# Governmental Financial Statements

## Reading and Presenting

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# Agenda

Complexities of your financial reporting

Overview of Your basic financial statements

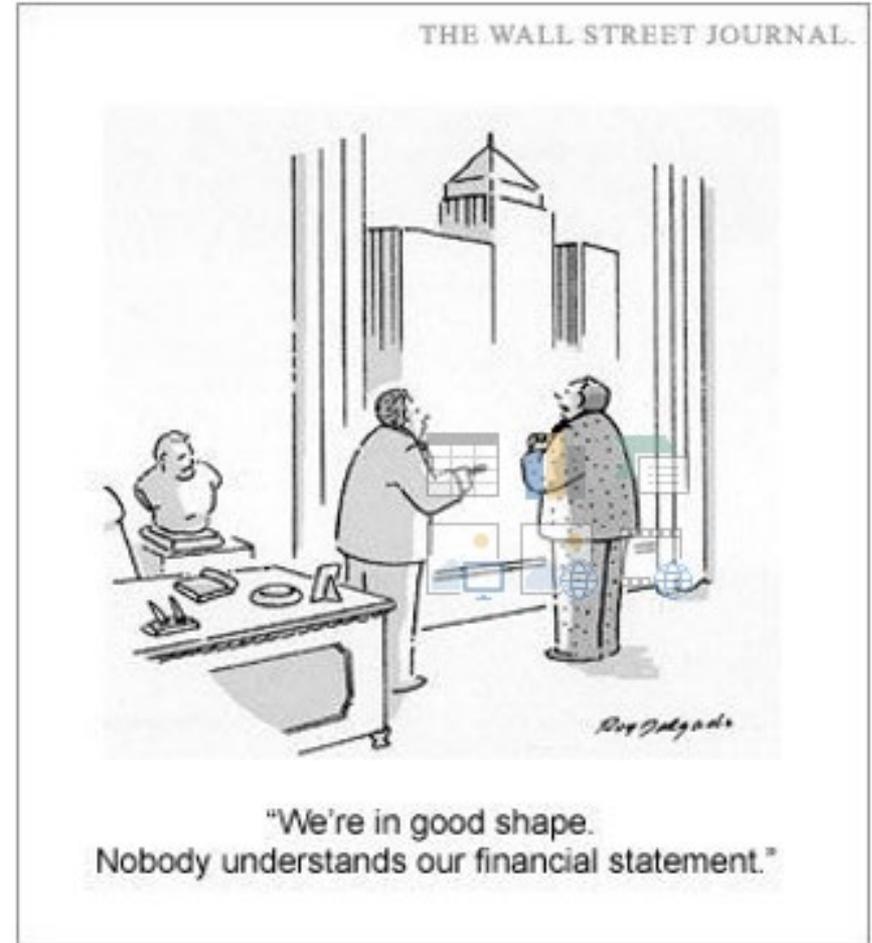
How to communicate your financial condition

Encourage questions throughout presentation

# Purpose of governmental financial statements

Financial statements provide information to users about your operations, financial position and budgetary compliance. Who are your users?

- ▶ Citizens
- ▶ Management & governing body
- ▶ Oversight agencies
- ▶ Bondholders/creditors



# How Easy are Your Financial Statements to Read and Present?

- ▶ Can be daunting even for those with a strong background in reading financial statements of businesses.
- ▶ Why is this the case?
  - Volume of data presented
  - Overall length of your financial statements
  - New pension and OPEB benefit standards
    - Especially cost sharing multiple employer plans
  - What are deferred outflows/inflows?
  - Different basis of accounting and measurement focus used throughout your financial statements.
    - Revenue recognition varies
    - Expenditures vs. expenses
    - Fund balance vs. net position
  - Regulated reporting of utility operations

# Basic Financial Statements Overview



Government-wide f/s

- Accrual
- Economic resources

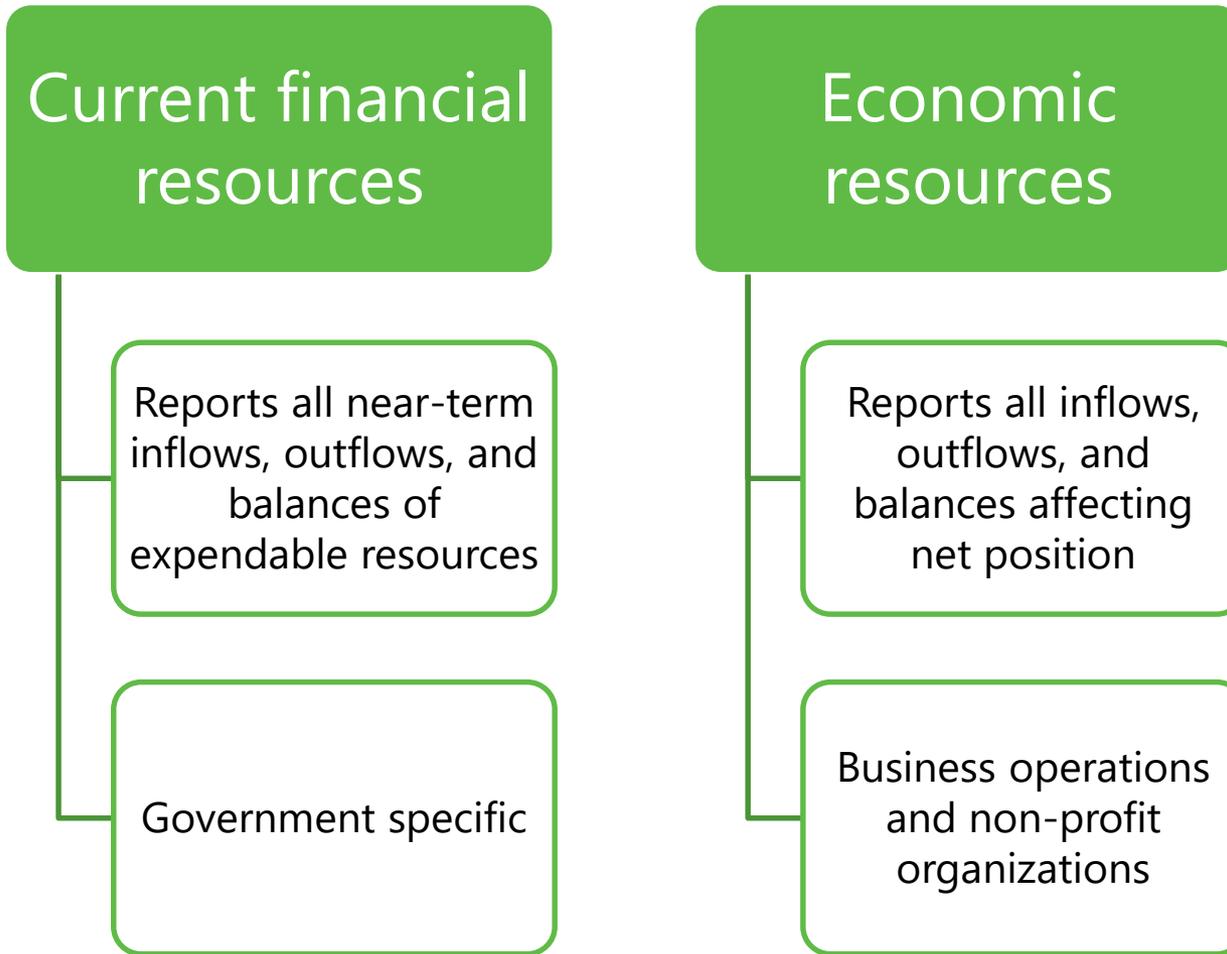
Governmental Funds f/s

- Modified Accrual
- Current financial resources

Proprietary Funds f/s

- Accrual
- Economic resources

# Measurement Focus



# Fund Financial Statements

Financial reporting focused on major funds

## Governmental Funds

- ▶ Reporting near-term inflows of spendable resources; useful in evaluating the your near-term financing requirements.
  - Fund balance provides measure of an individual fund's liquidity.
- ▶ Level at which you budget
  - Budgetary compliance disclosures
- ▶ General fund serves as your primary operating fund
- ▶ Major capital improvements funded by debt

# Fund Financial Statements (continued)

## Proprietary Funds

- ▶ Business-type activities (enterprise funds) where you provide goods or services in exchange for fees; fees generally intended to cover the full costs.
- ▶ Internal service funds, which are funds created to account for activity that will be “sold” internally to your other funds or other governments.
- ▶ Characteristics
  - Self-supporting; focus on revenues/expenses more than net position
  - Positive increase in net position indicates that the customers have paid the full cost of the services provided.
  - Importance of working capital (current assets less current liabilities) to assess financial health and ability to finance expenses.

# Fund Financial Statements (continued)

- ▶ Fiduciary funds
  - Not included in your government-wide financial statements
- ▶ Component units
  - Legally separate organizations for which the government is financially accountable.
  - Included in government-wide financial statements

# Government-wide Financial Statements

What's the purpose of these statements and why do you report them?

## **Statement of Net Position**

- ▶ Assets
- ▶ Deferred outflows of resources
- ▶ Liabilities
- ▶ Deferred inflows of resources
- ▶ Net position

How can you explain what deferred outflows and inflows of resources represent?

What is important for you and your board to understand?

# Deferred Inflows and Unearned Revenue

What's the difference?

- ▶ Availability Criteria
  - Deferred Inflow of Resources
    - Revenue is recognized on the government wide statements
  
- ▶ Eligibility Criteria
  - Unearned Revenues
    - Revenue is not recognized on the government wide statements.

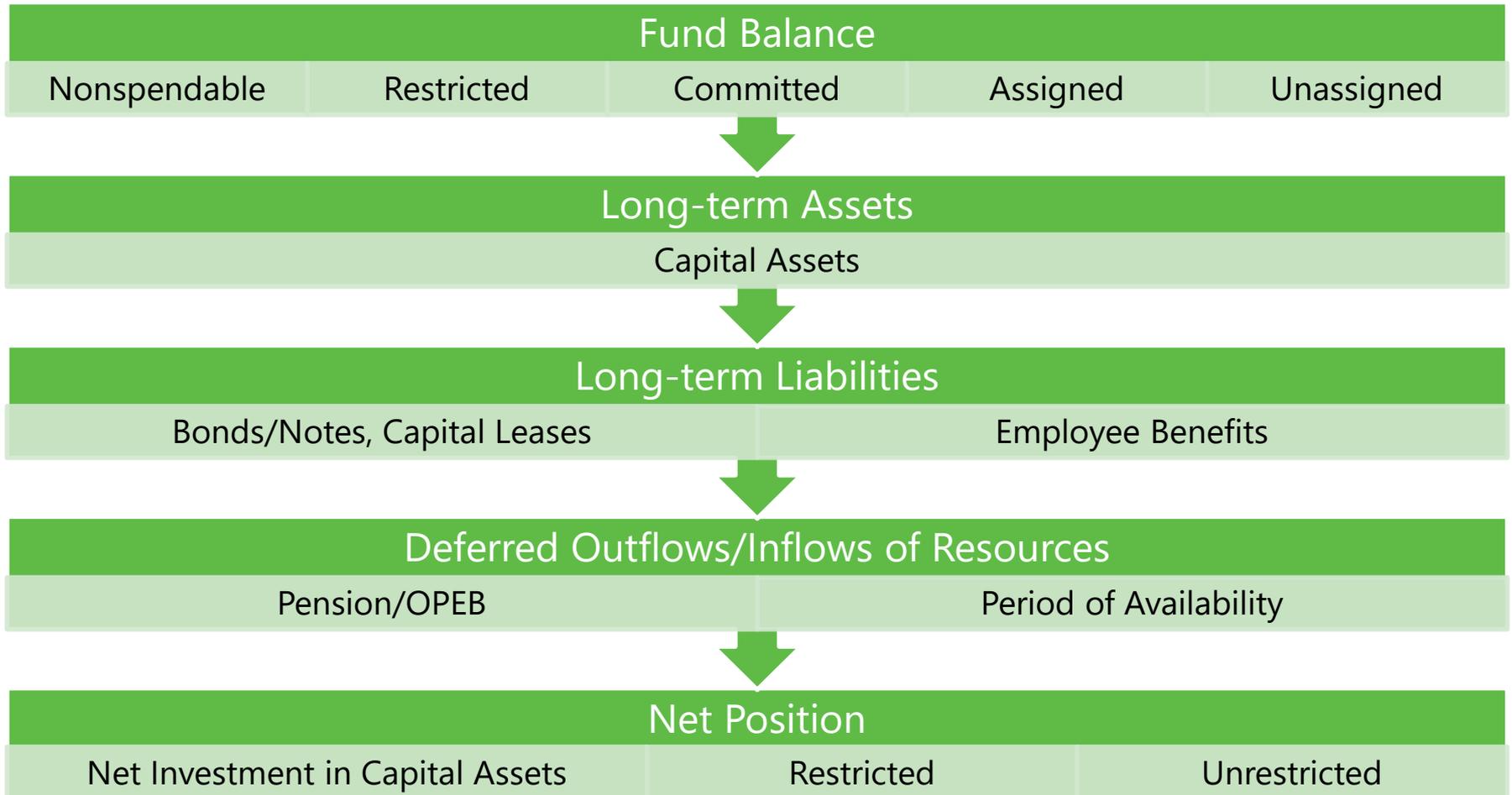
# Government-wide Financial Statements

## Statement of Activities

- ▶ Expenses (by function)
- ▶ Program revenues (by function)
  - Charges for services
  - Program-specific operating grants and contributions
  - Program-specific capital grants and contributions
- ▶ General revenues
  - All taxes, even those levied for a specific purpose
  - Interest not restricted to a specific program
  - Grants and contributions not restricted to a specific program
- ▶ Transfers

What is important for you and your board to understand?

# Reconciling Fund Balance to Net Position



# Fund Balance vs. Net Position

- ▶ What's the difference?
- ▶ What does my net investment in plant represent?
  - How is it calculated? Does it matter?
- ▶ Why is restricted fund balance not equal restricted net position?
  - Accrued interest (debt service)
  - Restricted bond proceeds eliminated from fund balance
  - Other reconciling adjustments
- ▶ Why do I not show committed net position?

# Financial Statement Footnotes

- ▶ Add much needed clarity to complex statements.
- ▶ May reveal underlying issues with a government's financial health.
- ▶ Footnotes also provide meaningful information regarding future activities that will have a notable impact on the government and its activities.
- ▶ Clearly, the sheer size of the footnotes can overshadow the financial statements themselves – consider what ones are most meaningful to your users and point them out.

# Management's Discussion and Analysis

- ▶ Allows you and your management team to present summary information on your current financial position, including changes in financial position, budgetary variances, capital assets and long-term debt commitments.
  - The MD&A can be a powerful tool to discuss reasons for significant changes from year to year.
  - A well-written MD&A can potentially present the entire story
    - Your financial statements support the MD&A
    - Allows less sophisticated readers of your financial statements to better understand your financial position

# How Do You Communicate How You Are Financially Doing?

- ▶ Using your interim and year end financial statements to assess your financial condition can provide you with valuable information on the current and future state of your finances.
  - Highlight potential fiscal problems
  - Provide information necessary for timely corrective action
  - Better ensure that you are able to fund the level and quality of services expected by your taxpayers.

**IMPORTANT**

# How Do You Define Financial Condition?

*Ability to balance recurring expenditure needs with recurring revenue sources, while providing services on a continuing basis.*

## ▶ Good financial condition

- Strong fund balance/net position
- Adopt balanced budgets by fund
- Ability to maintain adequate service levels during fiscal downturns
- Understands develops resources to meet future needs

## ▶ Fiscal distress

- Limited resources to finance current and future needs
- Struggles to balance its budget
- Suffers through disruptive service level declines during periods of fiscal downturns

## ▶ Need to take a comprehensive approach

# Factors to Consider

## ▶ Financial

- Overall revenue levels, excluding property taxes
- Tax levy constraints
- Expenditures
- Fund balance position
- Debt structure and debt limits
- Unfunded liabilities
- Capital assets condition

## ▶ Organizational

- Management/board policy choices

## ▶ Environmental

- Community needs and political stability
- Local economy

# Financial Health

- ▶ Measures of short-term financial health:
  - General fund unassigned (and overall) fund balance as a percentage of annual expenditures (also consider as a percentage of revenues)
  - Comparison of current fund balance to established policy
  - Percentage of surplus or deficit in current year, and prior four years
  - Are there any deficits in other funds?
    - Increasing focus of rating agencies
    - Presentation of temporary and long-term cash advances
  - Cash position (cash and investments/current liabilities)
  - Budgetary comparison schedules
    - Revenue variances
      - Remove impact of one-time revenues
    - Expenditures variances
  - Understand your fixed versus variable costs budget constraints

# Financial Health (Continued)

- ▶ Measures of long-term financial health
  - Total net position for governmental activities (first two statements) should be positive. Consider unfunded pension or OPEB benefits.
  - Look for future funding requirements:
    - Have capital outlays kept up with depreciation over last five years?
      - Trend of net book value of capital assets
      - Are you delaying capital improvements?
    - How well are your pension and OPEB funded, and the impact on future contributions?
    - Do you have unfunded development costs which could impact future tax levies (i.e. financial health of TIF Districts)?

# Financial Health (Continued)

- ▶ Trend analysis
  - Communicating your financial health means evaluating trends over a 5 – 10 year period
  - Use charts and graphs to simplify message for management/board
- ▶ Establish appropriate benchmarks using financial data
- ▶ Usefulness of peer comparisons
  - Ensure comparability

## Question banner





THANK YOU!



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