FOREIGN LANGUAGE OF FINANCIAL STATEMENTS

Part 1: A case study of the Marvel Avengers SWCD
WHERE DO YOU RATE YOUR UNDERSTANDING OF FINANCIAL STATEMENTS?
OBJECTIVES

AS A RESULT OF THIS TRAINING, PARTICIPANTS WILL:

• Understand why we need financial statements.
• Know the basic components of the LGU Financial Statement.
• Be able to recognize fundamental requirements in financial reporting.
WHY DO ORGANIZATIONS NEED FINANCIAL STATEMENTS?

- Assess the finances of the government in its entirety, including the year's operating results.
- Determine whether the government's overall financial position improved or deteriorated.
- Make better comparisons between governments.
- To help plan for the future of the organization and observe trends with respect to revenues and costs of operation.
- Determine the overall financial health of the organization.
- Prevent and mitigate financial misuse and fraud by identification of anomalies and inconsistencies.
- Follow and adhere to regulatory requirements and guidelines.
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How to derive ABCD from $1,234

The ability to grasp and understand financial statements gives the reader skills and abilities to take actions and make decisions that will assist and help their organization grow and be successful.

Not being equipped to properly interpret financial data can lead to costly mistakes and the loss of valuable resources.
"WHAT IS THE POINT OF OWNING A RACE CAR IF YOU CAN’T DRIVE IT?"

Tony Stark

Organizations have a wealth of financial data waiting to be used and far too often the people that make decisions for the organization simply don’t know how to use it to their advantage.
The basic layout and content for financial reports for SWCD’s and other local government units are the same. Standardization makes reports:

✓ Easier to learn and understand.
✓ Easier to compare across organizations.
✓ Easier to evaluate year over year results.
✓ Easier to predict future financial results and trends.
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Activity

Does your organization actively use its financial statements for decision making?

What areas of the financial statements are most valuable? Least valuable?

What are your pain points and what concepts do you struggle with?

Are there segments in the financial reports that simply make little or no sense?

What changes in how you handle financial statements could make things better?
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Building Blocks...

• Statement of Net Position
• Statement of Activities
• Statement of Cash Flows**
• Budgetary Comparison

**SOCF not required for "special purpose government engaged only in fiduciary activities."
Statement of Net Position

- Financial status of an organization at a specific point in time.
- Summarizes by primary asset and liability account groupings.
- Provides a valuation for all future obligations.
- The Net Position is derived from the net assets and liabilities, AND must equal the cumulative net revenue.
- If operations ceased today, how would everything be distributed?
- What are some key numbers and metrics one could look at?
### AVENGER MUD AND WATER CONSERVATION DISTRICT
ANYWHERE, MINNESOTA
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2017

<table>
<thead>
<tr>
<th>Account</th>
<th>General Fund</th>
<th>Adjustments</th>
<th>Statement of Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments</td>
<td>$650,000</td>
<td></td>
<td>$650,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$3,000</td>
<td></td>
<td>$3,000</td>
</tr>
<tr>
<td>Interest Receivable</td>
<td>$25,000</td>
<td></td>
<td>$25,000</td>
</tr>
<tr>
<td>Due From Other Governments</td>
<td>$5,000</td>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>$5,000</td>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td>Capital Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment (net of accumulated depreciation)</td>
<td>$100,000</td>
<td></td>
<td>$100,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$685,000</td>
<td>$100,000</td>
<td>$785,000</td>
</tr>
</tbody>
</table>

**Deferred Outflows of Resources**
- Defined Benefit Pension Plans: $65,000

**Combined Assets and Deferred Outflows of Resources**
- $685,000

**Liabilities**
- Current Liabilities:
  - Accounts Payable: $5,000
  - Salaries Payable: $2,500
  - Sales Tax Payable: $500
  - Customer True Deposit: $10,000
- Due To Other Governments: $475,000
- Unearned Revenue: $500
- Long-term Liabilities:
  - Net Pension Liability: $150,000
  - Compensated Absence: $17,000
- **Total Liabilities**: $518,000

**Deferred Inflows of Resources**
- Defined Benefit Pension Plans: $25,000

**Combined Liabilities and Deferred Inflows of Resources**
- $548,000

### Total Balance/Net Position
- **Total Fund Balance**:
  - Noncurrent (Prepaid, Inventories): $3,500
  - Assigned: $17,000
  - Unassigned: $314,500
- **Total Fund Balance**: $335,000

**Total Liabilities and Fund Balance**: $685,000

**Net Position**
- Investments in Capital Assets: $100,000
- Unassigned: $50,000
- **Total Net Position**: $250,000

**Total Liabilities and Net Position**: $685,000

*Notes are an integral part of the basic financial statements.*
Statement of Net Position

• What is the Net Position of an organization?
• Is yours positive or negative? How much?
• How does it compare to prior years?
• What is the difference between ‘Net Position’ and ‘Fund Balance’?
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Statement of Net Position

• What does unearned revenue imply?
• Does the dollar amount matter?
• How does it compare to your cash on hand?
• If cash is lower, what other sources might be used to fulfill these obligations?
Statement of Net Position

• What are Net Pension Liabilities and Compensated Absences?
• How much are these as a % of your liabilities?
• Where do these dollars come from?
• How do you plan for them?
• Why are they in a ‘special’ adjustments column?
Statement of Activities

• Financial performance of an organization over a range in time.

• Summarizes by primary revenue and expense account groupings.

• The cumulative net revenue is derived from the current AND all prior years activity, and must equal the net position.

• Adjusts some balances to be consistent with accrual basis accounting.

• Does not fully consider the future obligations.

• What are some key numbers and metrics one could look at?
AVENGERS SOIL AND WATER CONSERVATION DISTRICT
ANYWHERE, MINNESOTA

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Adjustments</th>
<th>Statement of Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>See Notes</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$600,000</td>
<td>$1,000</td>
<td>$601,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$16,000</td>
<td>$0</td>
<td>$16,000</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>$2,000</td>
<td>$0</td>
<td>$2,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$10,000</td>
<td>$0</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$738,000</td>
<td>$1,000</td>
<td>$740,000</td>
</tr>
<tr>
<td>Expenditures/Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conservation - Current</td>
<td>$375,000</td>
<td>$50,000</td>
<td>$425,000</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$60,000</td>
<td>$-60,000</td>
<td>$0</td>
</tr>
<tr>
<td>Total Expenditures/Expenses</td>
<td>$435,000</td>
<td>$-10,000</td>
<td>$425,000</td>
</tr>
<tr>
<td>Excess of Revenues Over (Under) Expenditures/Expenses</td>
<td>$65,000</td>
<td>$11,000</td>
<td>$76,000</td>
</tr>
<tr>
<td>Fund Balance/Net Position January 1</td>
<td>$312,000</td>
<td>$-38,000</td>
<td>$274,000</td>
</tr>
<tr>
<td>Fund Balance/Net Position December 31</td>
<td>$377,000</td>
<td>$-27,000</td>
<td>$350,000</td>
</tr>
</tbody>
</table>

Notes are an integral part of the basic financial statements.
Before all else…

The Fund Balance/Net position on January 1 of the current year statement MUST equal the Fund Balance/Net position on December 31 of the prior year statement.

The Fund Balance/Net position on January 1 of the current year statements MUST equal the Fund Balance/Net position on the Statement of Net Position.

Prior year adjustments should either be reflected on amended audited statements or called out as a separate line to the begin balance. They should NOT be a component of the current year activity.
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Statement of Activities

BEGIN YEAR NET POSITION +

REVENUE – EXPENSE =

END YEAR NET POSITION
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Statement of Activities

The change in net position can help illustrate the operational effectiveness of the organization.

• Are revenues and expenses trending upwards or downwards?
• Is the evaluation of expenses consistent with the changes in revenue?
• Is the trend expected to continue and is it sustainable?
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Statement of Activities

SWCD’s often receive most of their revenue from Intergovernmental Revenue, such as from County, Local and State.

• How much does this change over time?
• What impacts the amount of revenue an organization can expect?
• What is most of this revenue used towards?
• What is the relationship between this revenue and associated expense?
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Budgetary Comparison

• Similar to Statement of Activities but focus is on comparing plan to actual.
• A good budgeting process will make data and trends more meaningful.
• Less attention is given to year end accounting adjustments.
• Generally, accounts are more specific and provide greater detail.
• Helps identify the cause of variances.
AVENGERS SOIL AND WATER CONSERVATION DISTRICT
ANYWHERE, MINNESOTA

BUDGETARY COMPARISON STATEMENT
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Original/Final Budget</th>
<th>Actual</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intergovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County</td>
<td>$125,000</td>
<td>$150,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Local</td>
<td>$40,000</td>
<td>$50,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Federal</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>State Grants</td>
<td>$470,000</td>
<td>$480,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total Intergovernmental</td>
<td>$535,000</td>
<td>$600,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$0</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>$5,000</td>
<td>$2,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Other</td>
<td>$10,000</td>
<td>$80,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Total Miscellaneous</td>
<td>$15,000</td>
<td>$80,000</td>
<td>$65,000</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$550,000</td>
<td>$680,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Original/Final Budget</th>
<th>Actual</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel Services</td>
<td>$350,000</td>
<td>$375,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Other Services and Charges</td>
<td>$80,000</td>
<td>$72,500</td>
<td>$7,500</td>
</tr>
<tr>
<td>Supplies</td>
<td>$5,000</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$40,000</td>
<td>$50,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total District Operations</td>
<td>$475,000</td>
<td>$550,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>Project Expenditures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>$60,000</td>
<td>$85,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>State</td>
<td>$50,000</td>
<td>$40,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total project expenditures</td>
<td>$110,000</td>
<td>$125,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$585,000</td>
<td>$675,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>Excess of Revenues Over (Under) Expenditures</td>
<td>$150,000</td>
<td>$165,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Fund Balance - January 1</td>
<td>$65,000</td>
<td>$120,000</td>
<td>$47,000</td>
</tr>
<tr>
<td>Fund Balance - December 31</td>
<td>$220,000</td>
<td>$177,000</td>
<td>$43,000</td>
</tr>
</tbody>
</table>

Notes are an integral part of the basic financial statements.
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The Full Financial Report
• Independent Auditor’s Report
• Management Discussion & Analysis
• Financial Statements
• Notes to the Financial Statements
• Required Supplementary Information
It is **NOT** the purpose of the MD&A to refer to common templates that are uniformly applied by multiple governmental units.

- “The writers of MD&A should think about the questions they commonly receive from readers and answer them **proactively**. MD&A is required to cover a specific set of topics, but governments can include additional information that they consider relevant to those topics.“

- “Intended to make the financial report easier for experienced analysts to analyze and more accessible to less-sophisticated readers, MD&A can be one of the most valuable parts of the financial report.”

- “Writers should ask themselves ‘Would my elected officials understand this?’”

[www.gasb.org](http://www.gasb.org)
“Is the District as a whole better or worse off as a result of the year’s activities?”

Key Points:

- Opportunity for Financial Managers to provide objective short and long term analysis of the government’s operations.
- How does the organization look today as compared to the prior year (Statement of Net Position)?
- What does the fiscal year activity look like as compared to the prior year (Statement of Activities)?
- What are some key considerations such as capital investments and change in long term liabilities?
NOTES TO THE FINANCIAL STATEMENTS

“Communicate information essential for fair presentation of the financial statements”

1. Summary of Accounting Policies

• Generally boilerplate language for a specific organization.
• Contains clarification and interpretation of key accounting terms.
• Explanation of certain adjustments to financial data.
2. Detailed Notes

- Focuses on certain balance sheet items and their year over year changes.
  - Capital Assets
  - Long Term Liabilities
  - Unearned Revenue

- Considers activity not easily presented on the statement of activities.

- How Cash and Investments are managed.
NOTES TO THE FINANCIAL STATEMENTS

3. Defined Benefit Pension Plans
   • Notes provide details of what the pension plan is.
   • Balance sheet totals to district are related to contributions in and pension expenses out.
   • Gives details of how the balances are forecasted.
     • Predicted wage adjustments
     • Returns on Investments and discount rates
     • Inflationary Pressures
     • Benefit changes
   • What considerations for changes in balances.
NOTES TO THE FINANCIAL STATEMENTS

4. Operating Leases
   • Can be a large portion of overhead, and management is important.
   • Ordinarily a fixed cost for a period of time, sudden shifts can impact the performance of the organization.

5. Stewardship, Compliance & Accountability
   • Identifies the effectiveness of management to establish and follow plans.
   • Can call to attention unanticipated shifts in operations.
6. Reconciliation of Fund Balance to Net Position

- Simplifies and condenses the adjustments column on the statement of net position into summarized parts.
- Easier to read and follow. The focus is not on the individual account but the complete picture.
- Helps to clearly see large balances that may require additional attention.
NOTES TO THE FINANCIAL STATEMENTS

7. Reconciliation of Change in Fund Balance to Change in Net Position

• Simplifies and condenses the adjustments column on the statement of activities into summarized parts.

• Easier to read and follow. The focus is not on the individual account but the complete picture.

• Helps to see trends in activities that may require additional attention.
REQUIRED SUPPLEMENTARY INFORMATION

“Authoritative guidelines for the measurement and presentation of the information have been established”

- Budgetary Comparison (often presented with Statement of Activities)
- Schedules of Contributions and Liability to General Employees Retirement Fund (GERF)
- Breakdown of County Revenue
- Breakdown of Unearned Revenue
INDEPENDENT AUDITOR’S REPORT

“The financial statements are free of material misstatements and are presented fairly in accordance with the Generally Accepted Accounting Principles (GAAP).”

- Provides assurance to the readers of the financial statements that the statements are reliable.
- Reasonable assurance is not absolute.
- Communicate the results back to the Board, and not for the benefit of the auditor.
- The statements are evaluated by the auditor, but not created by the auditor.
- May test compliance with provisions of laws and regulations, but usually does not provide an opinion on internal controls over financial reporting.
- May explain key changes to the presentation of the Financial Statement due to changes in requirements.
The 2018 Financial Reports are DUE no later than March 15\textsuperscript{th}, 2019.

- SWCD’s may at their option submit the Statement of Activities Worksheet; and if they are determined to be required to have an audit, they may forgo the financial report submission on March 15\textsuperscript{th}.

Draft Audit Due to both the State Auditor and BWSR CFO by October 31.

Final Audit Due by December 31.
QUESTIONS?

Jeremy Olson, CFO  jeremy.olson@state.mn.us  BWSR