

Understanding Your Town's Financial Statements

Richmond Selectboard Meeting

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The Importance of the Annual Audit

Impartial review of the financial data

The importance of the opinion: “...present fairly in all material respects...” means the numbers are believable and represents the financial condition of the town

Provides a consistent format for comparison and analysis, including historical trends and measurements of financial strength

Demonstrates and verifies the town’s compliance with budget and town policy

The Audited Financial Statements 2021

- ▶ The Opinion, Independent Auditor's Report, page 2
- ▶ Management Discussion and Analysis, pages 4-10
- ▶ Government-Wide Financial Statements, GASB
- ▶ Fund Financial Statements, pages 13-20
- ▶ Notes to the Financial Statements, pages 21-50
- ▶ Budget to actual for Major Funds (GF and Highway) pages 51-58
- ▶ Non-major Governmental Funds--Special Revenue, Capital & Perm. Funds pages 61-66
- ▶ Trust Funds detail, pages 67-68
- ▶ Revenues and Expenses, Proprietary Funds, pages 69-72
- ▶ Internal Control Report, pages 73-75

Detail of the information increases toward the end of the statements

Government Wide Financial Statements Pages 11-12, and MD&A pages 4-10

Intended to show the user the “BIG picture”, combining activity for the entire municipal operation into one presentation

Is the overall financial position improving or not? MD&A analysis compares '21 to '20

Total Net Position (page 11) matches Net Position 6/30/21 on Page 12; increase in Net Position indicates revenues exceeded expenses

Important data point: *Net position—is it positive?, Did it increase or decrease?*

Important data point: Net position improved by \$1,859,145 in FY 21

Richmond Trend in Net Position, from Table 1-Net Position in MD&A

Activity Type	2018	2019	2020	2021
Governmental	\$ 7,897,762.00	\$ 8,625,026.00	\$ 9,135,601.00	\$ 10,350,099.00
Business-type	\$ 4,854,296.00	\$ 5,786,505.00	\$ 6,064,377.00	\$ 6,709,724.00
Total net position	\$ 12,752,058.00	\$ 14,411,531.00	\$ 15,199,978.00	\$ 17,059,823.00

The MD&A provides the analysis of the Government Wide data:

- Details to the changes in Net Position
- Increases/decreases in revenues or expenses
- Changes in capital assets
- Changes in outstanding debt

Balance Sheet vs. Net Position

Balance Sheet:

Assets = Liabilities + Fund balance, or

Fund balance = Assets - Liabilities

► Important: *Fund balance does not equal cash.*

Statement of Net Position:

Net Position = (Total Assets + deferred outflows) minus (Total Liabilities + deferred inflows)

Example of a deferred outflow: Future pension costs

Example of a deferred inflow: Prepaid property taxes

Fund classifications in Government Accounting

- ▶ Three main types: **Governmental, Proprietary & Fiduciary**
- ▶ **Governmental Fund Types:** General, Special Revenue, Capital Projects, Permanent, and Debt Service funds:
 - General Fund—the main operating fund for the town
 - Special Revenue—Revenues intended for specific purposes, dictated by the funding source or by the entity
 - Capital Projects Fund—used for tracking resources to acquire or construct capital assets
 - Permanent Funds—funds restricted to use of the income, not the principal
 - Debt Service Fund—used to account for payment of principal and interest payments
- ▶ **Proprietary** = Business-type funds (i.e. utilities or parking operations)
- ▶ **Fiduciary:** Funds held in trust for others, cannot be used for the town's own programs. Fiduciary funds include investment trust funds, pension trust funds, private purpose trust and custodial funds. Not included in Government Wide

- ▶ Governmental Funds are not proprietary, nor fiduciary
- ▶ Balance sheet of Governmental Funds: General Fund and Highway combined as General Fund in the Audit.
- ▶ Fund balance classifications for General Fund are important indicators of financial health, especially **Unassigned** fund balance. **Important item #1**
- ▶ Non-Major Governmental Funds combined. Detail found on pages 61-66
- ▶ Reconciliation of the Balance Sheet total fund balances for the governmental funds to Government Wide Net Position on bottom of page 13.
- ▶ Revenues, Expenditures, & Changes to Fund Balance: General Fund and Highway also combined here, page 14,
- ▶ Reconciliation of Governmental Funds to the Statement of Activities (and Net Position) page 15
- ▶ Detail of General Fund (Combined with Highway) Revenues and Expenses (Budget vs. Actual) on pages 51-58, do revenue exceed expenses? **Important item #2**

Fund Financial Statements Governmental Funds

Balance sheet page 13
Revenues, Expenditures
& changes to Fund
Balances, page 14

Governmental Fund Balance Classifications, GASB 34 and 54

Non-spendable - legally required to remain intact, such as prepaid expenses or inventory

Restricted - The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority (i.e. the voters).

Assigned - Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed (Selectboard's intent).

Unassigned - Remaining fund balance not allocated to the categories above

Trend in General Fund fund balances-- Is there an unassigned fund balance policy?

General Fund and Highway Combined Balance Sheet			
	2019	2020	2021
Nonspendable	14,783	15,645	17,816
Restricted	746,944	721,803	661,185
Committed	-	-	-
Assigned	-	-	91,000
Unassigned	216,027	391,890	620,023
Total Fund Balance	977,754	1,129,338	1,390,024

- ▶ Proprietary Funds--Water & Sewer--are Business-like activities
- ▶ Statement of Net Position, page 16 is a break down of the Government Wide statement of Net Position. Did each fund have a positive change in Net Position?
Important item #3
- ▶ Statement of Revenues, Page 17 Expense and Changes in Net Position, shows the change to Net Position. Depreciation included here...
- ▶ Statement of Cash Flows—page 18, Is Net Cash provided by Operating Activities positive, and fairly balanced?
Important item #4
- ▶ Reconciliation of Operating Income to cash provided by Operating activities on the bottom of page 18.
- ▶ Budget to actual detail for Water & Sewer, pages 69-72,
Important Item #5-did revenues exceed expenses?

Note: Sewer fund has \$0 cash as there is a large due to Sewer from Water Fund, see page 32.

Fund Financial
Statements
Proprietary Funds
Statement of Net Position,
page 16
Revenues, Expenditures &
changes in Net Position,
page 17
Statement of Cash Flows,
page 18

- ▶ Fiduciary Funds are money held in trust for others
- ▶ The 2 types shown here are Private-Purpose Trust (bequests) and Custodial (education taxes)
- ▶ You will not see the education tax custodial fund in your internal documents, it is an auditing compliance matter. It should always be zero at the end of the year (all money paid to the school).
- ▶ Review of the Private-Purpose Trusts is a monitoring activity to ensure expenditures are consistent with the goals of the trust.
- ▶ Fiduciary activities are not included in the Government Wide statements, as these funds are not available for use by the town.

Fund Financial Statements

Fiduciary Funds

Statement of Net Position, page 19

Revenues, Expenditures & changes in Net Position, page 20

Notes, pages 21-50

- ▶ Reporting entity (combined statements include all accounts and all operations of the town, page 21)
- ▶ Descriptions of the fund categories, page 22-23
- ▶ Basis of accounting—accrual, page 23 (not cash basis)
- ▶ Operate pooled cash & internal balances (due to/from)
- ▶ Budgeted Deficit, page 28
- ▶ Collateralization of funds, page 29
- ▶ Receivables at year end, page 30
- ▶ Capital asset details, page 31
- ▶ Interfund activity, page 32 **Important item #6**
- ▶ Long term debt, pages 35-38

Notes, cont...

- ▶ Fund balance discussion, page 39-41 **Important item #7**
- ▶ Classifications required by GASB 34 to identify governmental fund balances, Special Revenue (reserve) funds, by definition, are restricted to a specific use
- ▶ Stabilization agreement = GF fund balance policy, the town does not have one at this time
- ▶ This section identifies the fund balance descriptions for all the governmental funds
- ▶ Restricted vs. designated balances represented in the statements of Net Position (government wide & fiduciary) are identified, pages 42-43
- ▶ Pension Plan—VMERS—all information supplied by the state treasurer's office for each participating community, pages 43-49
- ▶ Misc.: Risk management, contingent liabilities, property tax, operating leases, page 49-50

Internal Control Report & Compliance

“...We consider the deficiency described in the accompanying Schedule of Findings and Deficiencies in Internal Control ad Item 2021-01 to be a material weakness.”

Deficiencies in Internal Control:

Material Weaknesses:

2021-01 Reconciliation of Balance Sheet Accounts

Recommendation:

We recommend that all balance sheet accounts be reconciled to supporting documentation at least monthly in order to detect and correct errors

Response: Performing reconciliation and adjusting entries more frequently throughout the year and extending the start time of the audit to allow for more time to adjust final revenues for the year end.

Ideas for simplifying quarterly reports

Adjustments to align with annual audit format:

- ▶ Execute a JE to incorporate GF fund balance classifications from prior year
- ▶ Update fund types (not fund numbers) to create combined balance sheets for General Fund to include Highway, Water & Sewer, and the Non-major funds

Recommended presentation for internal quarterly reports:

- ▶ Balance sheets for each fund type (combined), focus on GF fund balance, prior year and changed to fund balance with current year activity
- ▶ YTD Budget Status Report (budget vs. actual) for General fund, Water & Sewer. No need to have for non-major funds-very little activity, and balance sheet shows balances in these funds
- ▶ Due to/from report to show interfund balances at quarter end
- ▶ Bank balances at quarter end for all bank accounts for the town
- ▶ No need to produce Trial Balance as the balance sheets and YTD budget present the same information
- ▶ Tax Administration Status Report to show taxes billed and collected (including education) Could be the basis for a reconciliation to the GF tax revenue line as option to the current tax reporting..