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# UNDERSTANDING YOUR FINANCIAL STATEMENTS, AUDIT and CAFR REPORTS

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## MASC ADVANCED MEO SESSION

# INTRODUCTION

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## Key concepts

- Risk versus reward
- Reliable-timeliness, accuracy, completeness, propriety
- Financial information



analysis



decisions/actions

# INTRODUCTION

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## Key concepts

- Event/decision = financial consequence
- What you have - what you owe = what you own
  - Assets = liabilities + net assets/fund balance
- What comes in – what goes out = what is left over
  - Revenues – expenses = change in net assets/fund balance

# INTRODUCTION

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## Generally Accepted Accounting Principles (GAAP)

- Minimum standards
- **GASB-Government Accounting Standards Board**
  - Rule setting regulatory body for governmental accounting
- Your financial statements must be in compliance with Accounting Principles Generally Accepted in the US (commonly called GAAP)

# INTRODUCTION

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## Financial statements

- Should simply be the result of:
  - The day-to-day accounting for all of the financial transactions of your municipality (this is often done on a cash basis)
  - The closing procedures after the end of each month and the fiscal year to ensure accuracy and completeness of the transactions for the year

# INTRODUCTION

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## Financial statements

- You should have confidence in the accuracy and completeness of your financial statements because of:
  - the internal controls your municipality has in place
  - the competence of your financial staff
- Your external audit will verify that accuracy and completeness and should let you know if there are any major issues you need to know about

# INTRODUCTION

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## Financial statements

- Reasonable timeliness for the completion of the financial statements is important in order to make the financial statements more useful
- So there must be a balance between total accuracy and timeliness (the less time after month end you require your financial statements increases the risk of those statements being less complete and accurate)

# INTRODUCTION

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## Financial statements

- Who are the potential users of your financial statements?
- Who has responsibility for the financial statements?



# INTRODUCTION

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## Financial statements

- So if the financial statements are the responsibility of your municipality, what is the role of the auditor?
- And why does your municipality have an audit performed each year?

# INTRODUCTION

## SC Code 5-7-240

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(A) The council of each municipality having total recurring revenues at or above the threshold in Section 5-7-240(D) shall provide for an annual audit of financial statements. The council may, without requiring competitive bids, designate a certified public accountant or public accounting firm annually or for a period not exceeding four years, provided, that the designation for any particular fiscal year shall be made no later than thirty days after the beginning of such fiscal year.

(B) The council of each municipality having total recurring revenues below the threshold in Section 5-7-240(D) may elect to provide for either an audit of financial statements or a compilation of financial statements in lieu of an audit as follows:

(1) annually for municipalities that have a court system; or

(2) at least once every three years for municipalities that do not have a court system.

# INTRODUCTION

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(C) The audit or compilation must be performed by an independent certified public accountant or a firm of certified public accountants. The report of the audit or compilation shall be made available for public inspection. Financial statements of municipalities with a court system must include the requirements of Section 14-1-208.

A municipality that exceeds the threshold in the current fiscal year but was below the threshold in the previous fiscal year must begin submitting audited financial statements annually beginning no later than the fiscal year following the year in which its total revenues exceed the threshold.

# INTRODUCTION

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(D) Beginning with the municipality fiscal year which begins after January 1, 2024, the reporting threshold is \$500,000 of the total recurring revenue of a municipality. As soon as practicable at the beginning of each subsequent calendar year, the Revenue and Fiscal Affairs Office must determine the increase or decrease in the ratio of the Consumer Price Index to the index as of December 31 of the previous year and the threshold must be increased accordingly. If the average of the twelve-month consumer price index experiences a negative percentage, the average is deemed to be zero. For purposes of this subsection, "Consumer Price Index" means the Consumer Price Index for All Urban Consumers as published by the United States Department of Labor, Bureau of Labor Statistics.

# INTRODUCTION

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When you review your financial statements, three questions to consider:

- Is it what I expected?
- Is it reasonable?
- If not, why not?

If you don't understand what your financial statements are telling you, you can ask your finance director, other finance staff and/or your auditor to help you better understand. It is worth the time!

# GOVERNMENT ANNUAL FINANCIAL REPORTING

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Two kinds of annual reports your municipality can prepare:

1-Financial statements

2-Comprehensive annual financial report (CAFR)

# GOVERNMENT ANNUAL FINANCIAL REPORTING

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## CAFR

- Add following to standard financial statements
  - Introductory section
    - Title page with required information
    - Certificate from previous year award
    - Organization chart
    - Transmittal letter
  - Statistical section (some of this is used when municipal debt is issued)

# KEY FINANCIAL MEASUREMENTS

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## General Fund

1. Unassigned fund balance as a percentage of the next year's budgeted expenditures (just a year end measurement)
2. Revenues and expenditures compared to the budget (monthly or quarterly measurement)
3. Trend of revenues and expenditures (monthly or quarterly measurement)



# KEY FINANCIAL MEASUREMENTS

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## Proprietary Funds

1. Numbers of days expenditures in cash (monthly or quarterly measurement)
2. Debt service coverage ratio (year end measurement)

# KEY FINANCIAL MEASUREMENTS

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## Overall

1. Unused legal debt margin (year end measurement)
2. Cash balance-do we have enough cash to not issue a Tax Anticipation Note? Or do we have enough cash saved up for a project we want to do? Please note that generally your lowest cash balance happens in early December before the next round of property tax revenue begins being received. (monthly or quarterly measurement)

# MONTHLY VS. YEAR END FINANCIAL STATEMENTS

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We have been discussing the year end audited financial statements.

The internal monthly or quarterly financial statements you receive will look very different:

1. Revenues and expenditures/expense compared to the prior year and to the budget
2. KPI (Key performance indicators)-with green/yellow/red attached to each indicator (you probably don't receive this, but we would encourage this to occur where it makes sense-some of you may be satisfied seeing your cash balance every month or quarter.)

# FINANCIAL STATEMENTS

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Let's review actual financial statements

# FINANCIAL STATEMENTS

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So what have we not talked about that you would like to discuss or what questions can we try to answer for you.