

# A Quick Understanding of Your City Financial Statements For Non-Finance People

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## Buckets....We have Buckets

- Most Public Agencies have 4 to 5 major buckets of money
- Fully Discretionary Money only found in the General Fund
- After the General Fund, very little discretion



## “Did You Know....

The City of Camarillo CAFR for 2014:  
Total length 199 pages

Berkshire Hathaway Annual Report 2014:  
Total length 148 pages



## Berkshire Hathaway

### Balance Sheet 12/31/14 (in millions)

<u>Assets</u>		<u>Liabilities and Equity</u>	
Cash and equivalents .....	\$ 5,765	Notes payable .....	\$ 965
Accounts and notes receivable .....	8,264	Other current liabilities .....	9,734
Inventory .....	10,236	Total current liabilities .....	10,699
Other current assets .....	1,117		
Total current assets .....	25,382	Deferred taxes .....	3,801
Goodwill and other intangibles .....	28,107	Term debt and other liabilities .....	4,269
Fixed assets .....	13,806	Non-controlling interests .....	492
Other assets .....	3,793	Berkshire equity .....	51,827
	<u>\$71,088</u>		<u>\$71,088</u>

### Earnings Statement (in millions)

	<u>2014</u>	<u>2013*</u>	<u>2012*</u>
Revenues .....	\$97,689	\$93,472	\$81,432
Operating expenses .....	90,788	87,208	75,734
Interest expense .....	109	104	112
Pre-tax earnings .....	6,792	6,160	5,586
Income taxes and non-controlling interests .....	2,324	2,283	2,229
Net earnings .....	<u>\$ 4,468</u>	<u>\$ 3,877</u>	<u>\$ 3,357</u>

# City of Camarillo Cash

	Major Funds		
	Water Utility	Sanitary Districts	Solid Waste
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 15,445,153	\$ 10,950,832	\$ 6,029,291
Receipts from interfund services provided	-	-	-
Receipts from other	580	139,461	-
Payments to employees	(4,522,753)	(5,195,054)	(179,554)
Payments to suppliers	(7,486,272)	(1,714,233)	(5,985,289)
Payments for interfund services used	-	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>3,436,708</b>	<b>4,180,986</b>	<b>(135,532)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Property taxes	-	980,657	-
Subsidy from other governments	3,153	-	36,648
Transfers to other funds	(52,034)	(2,473)	-
Transfers from other funds	-	-	-
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(48,881)</b>	<b>978,184</b>	<b>36,648</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Rental income	23,871	82,251	-
Principal payments - bonds	-	(520,000)	-
Principal payments - capital leases	(6,542)	-	-
Interest paid	(100)	(920,205)	-
Acquisition and construction of capital assets	(619,038)	(1,894,011)	-
Proceeds from sale of capital assets	-	-	-
Cash received from others for capital improvements	670,748	727,332	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>68,939</b>	<b>(2,524,633)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	66,260	50,510	1,621
<b>Net cash provided by (used in) investing activities</b>	<b>66,260</b>	<b>50,510</b>	<b>1,621</b>
<b>Change in Cash</b>	<b>3,523,026</b>	<b>2,685,047</b>	<b>(97,263)</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	30,096,307	21,794,333	514,376
End of year	33,619,333	24,479,380	417,113
Investments that are not cash equivalents	-	-	-
Fair value adjustment of investments	103,219	75,679	1,903
<b>Cash and investments - ending</b>	<b>\$ 33,722,552</b>	<b>\$ 24,555,059</b>	<b>\$ 419,016</b>



## Why does it take so long to get our audit ???

- ▶ Our local water district issues their audit by Sept 30 every year.
  - Water districts have a 60 day jump on cities because of full accrual accounting
- ▶ Our City is lucky to get their audit by Thanksgiving and sometimes its not until Christmas
- ▶ It's always one thing or another that always holds up the audit
  - Retiree health actuarial, CRA dissolution, pension accounting, etc.
- ▶ Why can't we get quarterly financials like the private sector?
  - On average cities get about 8% to 10% of their revenue in the 1<sup>st</sup> quarter

## I am not making excuses..but

- ▶ City books close on Aug 31 (Gov't Accounting Revenue rules)
- ▶ Cities are multi-functional and more complicated
- ▶ A state-wide shortage of governmental accounting staff makes it difficult for cities to stay fully staffed in the Finance Department.



## Accounting “Lingo”

Finish this Sentence.  
We have enough.....

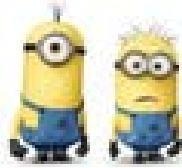
- ▶ Appropriations
- ▶ Fund Balance
- ▶ Encumbered
- ▶ Cash



### Who Needs to be informed?

- More financial training for non-finance people
- ▶ Councilmembers, Police Chief's, Dept Heads
- ▶ Labor negotiating teams
- ▶ C.A.V.E. people (citizens against virtually everything)

## Where's the Recap...??



- ▶ **Management Discussion & Analysis**
- ▶ ...summary narrative of how the year turned out – 12 to 20 pages
  - Overview of Government-wide financial position
  - Fund-based analysis for the major funds
  - Lots of other goodies!!

## MD&A Continued...

- ▶ **Comparative – two year presentation**
  - High-level narrative analysis
  - Summary presentation of Government-wide (top level financial statements
  - Introduces the “Governmental Activities” and “Business Type” activities components
  - Lots of charts and graphs to enhance the presentation
  - Summarized Fund Level statements too
    - Focuses on Major Funds
  - General Fund Budget discussion included
  - Capital Assets, Debt and Economic Factors

## Core Financial Statements

- ▶ Government–Wide Financials
  - ▶ Governmental Activities
  - ▶ Business Type Activities
  
- ▶ Comprehensive for the entire organization
  - ▶ Designed to enhance comparability between organizations and “the private sector”
  - ▶ Misses the mark...

## Core Financial Statements

- ▶ Fund Level Statements
  - ▶ General Fund
  - ▶ Major Funds reflected individually
    - ▶ Special Revenue Funds (if any)
    - ▶ Debt Service Funds (if any)
    - ▶ Capital Projects (if any)
    - ▶ Permanent Funds (if any)
  - ▶ “Other” Non–Major Governmental Funds
  - ▶ Budgetary Statement of the General Fund
  - ▶ Major Proprietary Funds
    - ▶ Enterprise and Internal Service
  - ▶ Fiduciary Funds (former RDA’s)

## Core Financial Statements

- ▶ Types of Financial Statements
  - ▶ Balance Sheet/Statement of Net Position
  - ▶ Income Statement – “Statement of Revenues, Expenditures and Changes in Fund Balance/Net Position” (whew!)
  - ▶ Cash Flow Schedule (Proprietary Fund Types)
  - ▶ Budget and Actual Statement
- ▶ “Minor Funds” represented in “Combining Statements” toward the back of the CAFR

## Core Financial Statements

- ▶ Notes to the Financial Statements
  - ▶ Very long and very technical
  - ▶ The GASB “full employment” effort
- ▶ Integral part of understanding the numbers in the statements
  - ▶ Statements all make that comment and refer to the Notes
  - ▶ Incomplete picture without the Notes

## Last Part of Financials

- ▶ Required Supplementary Information
  - Historical Pension Information
  - Historical OPEB Information
- ▶ Capital Assets Information
- ▶ Federal Compliance Opinion letters (optional)
- ▶ Schedule of Federal Assistance (optional)
- ▶ Federal Schedule of Findings (optional)
- ▶ Statistical Tables
  - 10 year history for variety of data sets (rev's, exp's, AV#'s, debt information, economic data, etc.)

## Show Me the Money!!!!

- ▶ The financial statements are used by many entities to understand the City's financial position, understand trends and make decisions!





## The Rating Agencies

- Most Public Agencies have several bond ratings (like a FICO score)
  - From Moody's, Standard & Poors and/or Fitch
- One rating for the General Fund - the "GO Rating," and one for its COP debt (more commonly used)
- A separate rating for each Enterprise operation (Water, Electric, Sewer...)
- Rating Agencies use the CAFR, and other requests for data, to evaluate the City's "credit worthiness" and assign a rating affecting the interest cost of the debt

## GASB and Other Rule Makers



- ▶ Governmental Accounting Standards Board (GASB)
- ▶ AICPA Audit Standards (GAAS)
- ▶ Federal GAO and Yellow Book (GAGAS)

## Audit Deliverables...the stuff

- ▶ Drafted Financials
- ▶ Audit Opinion
- ▶ Single Audit (Federal Compliance Report)
- ▶ Component Unit Financial Statements (if any)

## More Audit Stuff....

- ▶ Governance Communications Letter (to governing board)
- ▶ Management Letter (if no Single Audit)
- ▶ Appropriations Limit Report (Agreed-upon procedures)

## Last Advice on Financial Statements

- ▶ Always write your own note disclosures
- ▶ Carefully read the management representation letter
- ▶ Be familiar with the details of the attorney pending litigation letter

## Financial Statement Preparation

- ▶ Dozens of business lines with different rules
- ▶ Year-end close process has hundreds of tasks
- ▶ Availability period for governmental funds
- ▶ Audit(s) takes time
- ▶ Document publication takes time

## A CAFR is a key component of financial management

- ▶ Year-end budgetary results
  - ▶ Audit results
  - ▶ Reserves and other financial policies
  - ▶ Financial disclosure
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