

SRF 101: How to Read Audits

What did the auditor do to liven up the office party?

He didn't show up.

A woman went to the doctor who told her she only had 6 months to live.

"Oh my Gosh!" said the woman. "What shall I do?"

"Marry an auditor," suggested the doctor.

"Why?" asked the woman. "Will that make me live longer?"

"No," replied the doctor. "But it will SEEM longer."

SRF 101: How to Read Audits

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Ohio Water Development Authority

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Oklahoma Water Resources Board

Overview

- What is an audit and what is not?
- What are the three main types of financial statements?
- Audit Opinions
- Audit Findings
- Ohio vs. Oklahoma: How do they review Financials?
- Q&A

What is a Financial Audit?

- An audit:
 - Is a report on the financial statements and controls of an entity.
 - Is performed by an independent auditor.
 - Contains an opinion on the accuracy of the financial statements

What is NOT a Financial Audit?

- EPA Audits
- Agreed Upon Procedures (AUPs)
- State Auditor or FBI audits due to potential fraud
- Anything that doesn't mention an independent auditor



ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS

For the Fiscal Year Ended June 30, 2013



INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

TO THE BOARD OF TRUSTEES OF
XYZ HOSPITAL



Oklahoma State Auditor & Inspector

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January 4, 2012

Honorable Janet Barresi, Chairperson
Oklahoma State Board of Education
2500 North Lincoln Blvd., Room 118
Oklahoma City, Oklahoma 73105-4599

Transmitted herewith is the Special Audit Report of the Oklahoma State Department of Education.

The Main 3 Types of Audited Financial Statements

- **Balance Sheet** (Statement of Financial Position)
 - Assets and Liabilities
- **Income Statement** (Statement of Operations)
 - Revenues and Expenses
- **Statement of Cash Flows**
 - Operating, Investing, and Financing Activities

**10 out of 9
accountants
can't count.**

Balance Sheet

- Purpose is to show assets and liabilities and net position
- Cumulative as of a point in time
- Net position is what an entity is worth.
- Types of Assets:
 - Cash and Investments
 - Infrastructure
 - Accounts Receivable

Balance Sheet – Cont.

- Types of Liabilities:
 - Accounts payable
 - Accrued Interest Payable
 - Compensated Absences and unfunded pension liabilities
 - Debt

- Net position is assets minus liabilities

Income Statement

- Measures income and expenses for a specific period of time – usually annually
- Types of Revenue:
 - User charges
 - Taxes
 - Interest income
 - Contributions

Income Statement - Cont

- Types of Expenses:
 - Salaries
 - Utilities
 - Interest Expense
 - Operation and maintenance
 - Depreciation

Income Statement – Cont.

- Purpose is to calculate change in net position – (profit or loss)
 - Income plus contribution less expenses
 - Positive is good – negative is bad
 - Look for one time items
- Accrual vs. Cash

Cash Flow Statement

- Similar to the income statement, measures income and expenses for a specific period of time based on cash receipts and disbursements
- Provides information about how an organization finances and meets its cash flow needs
- Profit is an opinion, cash is a fact

Other Required Items

- Management's Discussion and Analysis
 - Management's cliff notes to the Financial Statements
 - Not subject to the audit
- Footnotes
 - Disclosures about accounting policies
 - Listings of Investments and debt
 - Disclosures about litigation and other contingent liabilities

Auditor's Opinion

- What is an Audit Opinion?
 - A statement recorded in the audit by the independent accountant who audited the entity's books.
- 4 Types of Opinions

4 Types of Audit Opinions

- Unqualified



- Adverse



- Qualified



- Disclaimer of Opinion



Unqualified Opinion

- The financial statements present fairly and appropriately, and in accordance with Generally Accepted Accounting Principals (GAAP)
- What it means:
 - The financial sampled was sound and free from material misstatement
 - “Clean” audit

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of ██████, Oklahoma, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

- The financial statements present fairly the reality with the exception of...
- What it means:
 - The financial statements may not have been complete, or the auditor was unable to verify certain information

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of █████, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Adverse Opinion

- The company's financial statements are misrepresented, misstated, and do not present fairly its financial performance and health.
- What it means:
 - Serious problem. There is something (or lack of something) causing the financial statements to be misstated

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on Business-Type Activities” paragraph, the financial statements referred to previously do not present fairly the financial position of the business-type activities of the Town of ██████ Oklahoma, as of June 30, 2013, or the changes in financial position and, where applicable, cash flows thereof for the year then ended.

Disclaimer of Opinion

- The Auditor cannot express an opinion on the financial position of the entity
- What it means:
 - Usually indicates a severe issue with the entity's recordkeeping/financial reporting practices

Since the City of [REDACTED], Oklahoma did not maintain adequate accounting records for revenue and expenditures and I am not able to satisfy myself as to revenue and expenditure amounts, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on these financial statements.

Audit Findings

- What are audit findings?

Audit Findings are problems or deficiencies identified by the auditor. Findings generally relate to:

- Adequacy of controls
 - Compliance with policies/procedures/laws
 - Efficiency/effectiveness of the administration.
-
- Recommendations and Responses

Audit Findings – cont.

- Good Response

City's Response:

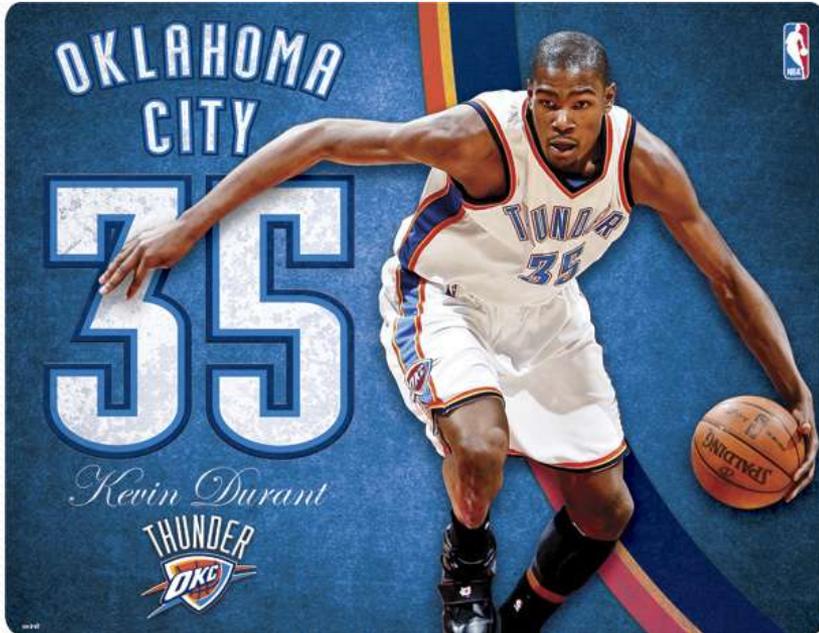
All transactions are now being recorded using the electronic cash register. Permits are pre-numbered and the permits are recorded in a pre-numbered receipt book. A log of the pre-numbered transaction receipts is being kept by the accounting department.

Actual checks, and not just the total of the checks, are not being compared to the list of checks that are recorded with the electronic cash register.

- Bad Response

- “Management agrees”
- No response at all

Ohio vs. Oklahoma



- How Do These SRF Lenders Review Financial Statements?

Oklahoma

<u>ANNUAL AUDIT REVIEW</u>		
<u>XYZ Public Works Authority</u>		
Collateral:		
Fiscal Year End:		
Date Received:		
Date Reviewed:		
By:		
Auditor's Opinion		
Schedule of Asset Aging Included?		
<i>notes re: opinion</i>		
.....		
<i>notes re: findings</i>		
.....		
<i>notes re: debt coverage</i>		
.....		
<i>other</i>		
.....		
.....		

Oklahoma – cont.

<u>LOAN DATA</u>			
Loan Number	Date Closed	Original Amount	<u>Balance as of</u> 6/30/2013
<u>FINANCIAL SUMMARY</u>			
	<u>Calculation 1</u>	<u>Calculation 2</u>	
Operating Revenues			
Operating Expenses			
Net Operating Income	\$ -		
Sales Tax Income	\$ -		
Miscellaneous Revenues			
Interest Income			
Income Available for Debt Service	\$ -	-	
FAP-94-0031-L			
ORF-96-0004-CW			
ORF-03-0004-DW			
Other Debt	\$ -		
Total Annualized Debt	\$ -	-	
x Rate Covenant		1.25	
Income Required for Debt Service	\$ -	-	
Actual Debt Coverage		x	x

Community Monitoring: Ohio

2013 Financial Form Status

- 676 Forms Sent
- 586 Forms Returned
- 90 Forms Outstanding
- Second notices have been sent and were due by November 1st

2013 Financial Information Form

Financial Information Form

LGA Name: _____

Year of information reported 2013
Please report on a cash basis

	Water Fund	Sewer Fund
1. Cumulative Surplus Prior to Reporting Year	\$ _____	\$ _____
2. Reporting Year Gross	_____	_____
3. Reporting Yr Operation & Maintenance Expenses	_____	_____
4. Reporting Year Annual Debt Service	_____	_____
Total Expenses (3 + 4)	_____	_____
Reporting Year Net Revenue (2 - (3 + 4))	_____	_____
5. Number of Total Customers	_____	_____
6. Number of Residential Customers	_____	_____
7. % Revenue from Residential Customers	%	%
8. % of Users with Outstanding Accounts > 3 Months	%	%
9. Date of Last Rate Increase	_____	_____
10. Amount of Average Increase	_____	_____
<input type="checkbox"/> Percentage <input type="checkbox"/> Per Thousand <input type="checkbox"/> Per 100 cubic feet		
11. Enforce Rate Ordinance Enacted in Reporting Year?	[]	[]
(Check the year)		
12. Have any Large Users Significantly Decreased Usage in the Past Year?	[]	[]
Explain Usage Decrease		
13. Are Your Facilities Insured for Loss and Liability?	[]	[]
List insurer	_____	
14. There is more information written on the form?	[]	
15. List any additional funds that support the debt service paid to OWDA.		

Wastewater Funding Activity for Campbellville

January 1, 1989 to December 31, 2013

Year	Program	Project Name	Amount
1992	OPWC Grant	Storm Sewer Replacement	\$99,000.00
2001	OWDA Loan	Wastewater Lagoon Improvements	\$101,311.00
2007	SRF Loan	Sewer Separation	\$380,254.00
2007	CDBG State Grant	Sewer	\$500,000.00
2007	SRF Loan	Combined Sewer Overflow-Phase 2	\$697,641.07
2009	SRF ARRA Principal Forgiveness	Sanitary Lateral & Main Sewer Repair	\$258,657.00
2009	SRF Loan	Sanitary Lateral & Main Sewer Repair	\$86,219.00
2011	OPWC Grant	Sanitary Sewer Separation	\$500,000.00
2011	OPWC Credit Enhancement	Sanitary Sewer Separation	\$250,000.00

OPWC – Ohio Public Works Commission; a state Infrastructure Agency.

Credit Enhancement – Equivalent of a grant; pays capitalized interest and interest payment for the first year of a loan.

Wastewater Fund Financial Information Detail for Campbellville

	2011	2012	2013
Cumulative Surplus from Prior Year	\$147,153	\$158,686	\$136,193
Gross Revenues	\$196,160	\$229,093	\$240,542
Operation & Maintenance Expenses	\$124,576	\$186,705	\$161,101
Total Annual Debt Services*	\$58,780	\$64,881	\$69,048
Total Expenses	\$183,356	\$251,586	\$230,149
Net Revenue	\$12,804	(\$22,493)	\$10,394
Actual Cumulative Surplus	\$159,957	\$136,193	\$146,587
Number of Total Customers	476	476	519
Number of Residential Customers	471	471	518
% of Revenues from Residential Users	90.00%	90.00%	99.00%
% of Users w/Outstanding Accounts > 3 Months	20.00%	15.00%	10.00%
Date of Last Rate Increase	01/01/2012	01/01/2012	
Amount of Average Rate Increase	3.5%	3.5%	
*OWDA Annual Debt Services	\$64,881	\$64,881	\$64,881
OPWC Credit Enhancement	<u>(\$6,101)</u>		
OPWC Annual Debt Service			<u>\$4,167</u>
Total Annual Debt Service	\$58,780	\$64,881	\$69,046

Drinking Water Funding Activity for Campbellville January 1, 1989 to December 31, 2013

Year	Program	Project Name	Amount
1993	OPWC Loan	Water Treatment Plant Construction	\$747,000.00
1999	OPWC Grant	Water Main Replacement	\$139,325.00
2002	OPWC Grant	Waterline Crossing Repair	\$35,400.00
2004	OWDA Loan	Waterline Replacement	\$144,000.00

OPWC – Ohio Public Works Commission; a state Infrastructure Agency.

Drinking Water Fund Financial Information Detail for Campbellville

	2011	2012	2013
Cumulative Surplus from Prior Year	\$45,906	\$55,729	\$83,829
Gross Revenues	\$145,815	\$232,793	\$236,423
Operation & Maintenance Expenses	\$86,036	\$156,254	\$163,732
Total Annual Debt Services*	\$48,440	\$48,440	\$48,440
Total Expenses	\$134,476	\$204,694	\$212,172
Net Revenue	\$11,339	\$28,099	\$24,251
Actual Cumulative Surplus	\$57,245	\$83,829	\$108,080
Number of Total Customers	482	482	524
Number of Residential Customers	478	478	518
% of Revenues from Residential Users	100.00%	99.00%	99.00%
% of Users w/Outstanding Accounts > 3 Months	20.00%	15.00%	10.00%
Date of Last Rate Increase	01/01/2012		
Amount of Average Rate Increase	17.5%		
*OWDA Annual Debt Services	\$11,090	\$11,090	\$11,090
OPWC Annual Debt Service	<u>\$37,350</u>	<u>\$37,350</u>	<u>\$37,350</u>
	\$48,440	\$48,440	\$48,440

Wastewater Funding Activity for Grossmantown January 1, 1989 to December 31, 2013

Year	Program	Project Name	Amount
1989	OWDA Loan	Sewer	\$129,755.55
1989	OPWC Grant	Sewer Line	\$10,535.00
1990	OWDA Loan	Sewer	\$84,099.97
1999	OPWC Grant	Sanitary Force Main Repairs	\$7,650.00
2012	ARC Federal Grant	Wastewater Facilities Rehab	\$250,000.00

OPWC – Ohio Public Works Commission

ARC – Appalachian Regional Commission

Wastewater Fund Financial Information Detail for Grossmantown

	2011	2012	2013
Cumulative Surplus from Prior Year	\$14,453	\$17,687	\$7,277
Gross Revenues	\$119,499	\$98,753	\$180,244
Operation & Maintenance Expenses	\$116,265	\$109,163	\$99,835
Total Annual Debt Services*	\$0	\$0	\$0
Total Expenses	\$116,265	\$109,163	\$99,835
Net Revenue	\$3,234	(\$10,410)	\$80,409
Actual Cumulative Surplus	\$17,687	\$7,277	\$87,686
Number of Total Customers	387	360	387
Number of Residential Customers	380	360	382
% of Revenues from Residential Users	0.00%	99.00%	0.00%
% of Users w/Outstanding Accounts > 3 Months	0.00%	9.00%	54.00%
Date of Last Rate Increase	09/01/2010	09/01/2010	04/09/2013
Amount of Average Rate Increase	1.00%	3.50%	2.50%
*OWDA Annual Debt Services	\$20,030	\$20,030	\$20,030

Drinking Water Funding Activity for Grossmantown January 1, 1989 to December 31, 2013

Year	Program	Project Name	Amount
2001	CDBG State Grant	Water	\$500,000.00
2002	SRF Loan	Water Systems Improvements	\$706,619.00

Drinking Water Fund Financial Information Detail for Grossmantown

	2011	2012	2013
Cumulative Surplus from Prior Year	\$21,626	\$39,017	\$6,349
Gross Revenues	\$222,658	\$211,870	\$199,822
Operation & Maintenance Expenses	\$164,735	\$163,529	\$168,010
Total Annual Debt Services*	\$40,532	\$81,009	\$40,832
Total Expenses	\$205,267	\$244,538	\$208,842
Net Revenue	\$17,391	(\$32,668)	(\$9,020)
Actual Cumulative Surplus	\$39,017	\$6,349	(\$2,671)
Number of Total Customers	545	400	445
Number of Residential Customers	538	420	440
% of Revenues from Residential Users	0.00%	99.00%	99.00%
% of Users w/Outstanding Accounts > 3 Months	0.00%	20.00%	89.00%
Date of Last Rate Increase	09/01/2010	09/01/2010	01/01/2008
Amount of Average Rate Increase	1.00%	3.50%	3.50%
*OWDA Annual Debt Services	\$41,137	\$41,137	\$41,137

Questions?



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