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Notes to the Financial Statements for Villages

Presented by: Local Government Services



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Frequently Asked Questions

- Why do I have to prepare notes to the financial statements now?
- When are local governments required to prepare notes to the financial statements?
- My auditors have always done this for me in the past; can they still prepare the notes for me?
- If I don't prepare notes for my entity, what is the penalty?
- What if the local government receives a basic audit or AUP, do I still need to file notes?
- My entity has a two-year audit, do I still need to prepare notes each year?
- My entity uses UAN, do I still need to prepare notes?
- Does AOS have any resources available?



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Getting Started

- Shells are available on the Auditor of State website as a word document.
- Contact the auditors who did your last audit; they may be able to send you their notes file to be used as a starting point.
- Look at prior audit reports on the Auditor of State website for your entity.
- We will go over each note and provide tips as to how to prepare the note
- Remember to customize every note for your entity – if it doesn't apply to you, delete it out!



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Note Shells

- Go to www.ohioauditor.gov
- Hover your mouse on Local Government at the top, then click Reference Materials
- On the left side, choose Financial Statement Shells and Footnotes



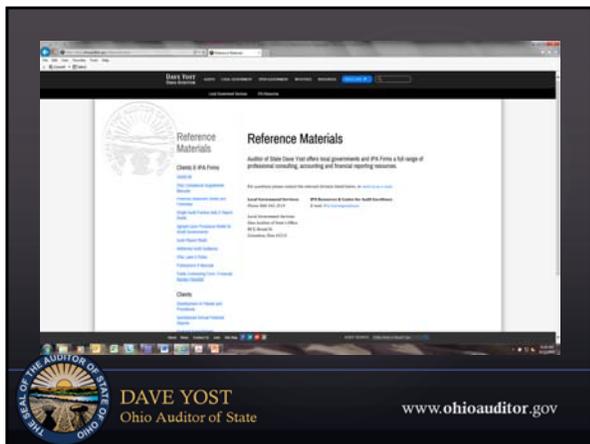
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The screenshot shows the 'Financial Statement Shells and Footnotes' page on the Ohio Auditor of State website. The page is titled 'Financial Statement Shells and Footnotes' and includes a 'References Materials' sidebar. The main content area lists various financial statement shells and footnotes, including 'OCBOA Cash Basis Financial Statements (commonly referred to as "AOS basis")' and 'Regulatory Cash Basis Financial Statements (commonly referred to as "AOS basis")'. The page also features the Ohio Auditor of State logo and the name 'DAVE YOST, Ohio Auditor of State' at the bottom, along with the website address 'www.ohioauditor.gov'.

The screenshot shows the 'Regulatory Cash Basis Financial Statements (commonly referred to as "AOS basis")' page on the Ohio Auditor of State website. The page is titled 'Regulatory Cash Basis Financial Statements (commonly referred to as "AOS basis")' and includes a 'References Materials' sidebar. The main content area lists various financial statement shells and footnotes, including 'OCBOA Cash Basis Financial Statements (commonly referred to as "AOS basis")' and 'Regulatory Cash Basis Financial Statements (commonly referred to as "AOS basis")'. The page also features the Ohio Auditor of State logo and the name 'DAVE YOST, Ohio Auditor of State' at the bottom, along with the website address 'www.ohioauditor.gov'.

Note Shells - continued

- Choose OCBOA or Regulatory, then find your entity type
- Click on Notes and save the file on your computer in an easy to find place
- Consider naming the file with the year you're working on, so that you can go back to it in future years
- These shells are updated about once a year, so check back for updates and incorporate them into your file each year
- The OCBOA shells include the most common note disclosures


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Note Shells - continued

- The shells have colors to help guide you
 - Yellow highlights are helpful guidance
 - Green highlights are generic information; modify to fit your entity
- The shells use CY for current year and PY for prior year
 - You can use "find and replace" to make them 16 and 15, or whatever year you are in
- The shells include a header that if modified on the first page, will carry your entity name, county, and year through all pages of the report



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Ready to Dive Into Notes?



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Note 1 – Reporting Entity

- Describe the services that your village provides
- If your village contracts a major service with another entity, then describe that as well. For example:
 - Village – Paying the County Sheriff for specific police protection
- Fiscal distress – If your village is in fiscal caution, watch, or emergency, you'll need an extra paragraph
- Other organizations – We'll come back to this when we look at Notes 14 through 17



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Note 2 - SSAP

- Most of this note is standard language that you will just leave as-is
- Fund types – delete those that don't apply; list significant funds under each type with a brief description
- Budgetary process – update certain sentences if you had no encumbrances at year-end; yellow highlights will guide you
- Deposits and investments – modify to fit your investments, if you have any (we will go into more detail on this in Note 5)



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Note 3 - Compliance

- List any budgetary violations that the village had during the year, by fund
 - Expenditures plus encumbrances exceeded appropriations
 - Appropriations exceeded estimated resources plus carryover balance
- List any funds that had a deficit cash balance at year-end, if any
- Later on during your audit, the auditors may add other items here if they find non-compliance



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Note 4 – Budgetary Activity

- Regulatory notes have charts – budgeted vs actual activity by fund type for both receipts and expenditures
 - Make sure you use budget amounts from your most recent Amended Certificate of Estimated Resources and Appropriations for the year being reported
 - Actual amounts should match the financial statements
- OCBOA notes have a chart that reconciles the difference between the cash balance of the general and major special revenue funds with the budget basis balance of those funds
 - There is a worksheet to help fill in this chart included in the handout



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Note 5 – Deposits and Investments

- Regulatory notes have a chart that lists all the cash/investment accounts by type
 - All accounts of one type are added together, you don't have to list out each bank or account separately
- OCBOA notes describe the amount of deposits and what portion was uninsured by FDIC
- OCBOA notes provide more detail on investments, including information from the village's investment policy



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Note 6 – Property Taxes

- Regulatory notes – if you don't have any public utility taxpayers, delete the 2nd paragraph
- OCBOA – you will need the full tax rate and assessed values; these can be obtained from your County Auditor



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Note 6 – Income Taxes

- If your village levies an income tax, include this note
- If you do not have a municipal income tax, delete this portion of the note
- Describe what types of income are taxed and include the tax percentage
- Look at your most recent income tax ordinance and/or the ballot language if some of the tax was approved by voters; if a portion of the tax is required to be used for a specific purpose, say that in the note



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Note 7 – Interfund Transfers

- OCBOA – also describe transfers made during the year and their purpose; the shell includes a chart but if you only have one or two funds with transfers, you could just describe them in a sentence



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Note 7 – Interfund Advances

- Regulatory – describe any material outstanding advance(s) not repaid at year end, including what the purpose of the advance was
- OCBOA – describe any outstanding advance(s) not repaid at year end and their purpose; the shell includes a chart but if you only have one or two funds with advances, you could just describe them in a sentence



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Note 8 – Risk Management

- Regulatory – in the list of types of insurance, only include those that your village has.
- If participating in a risk pool for insurance, use and update that section with the name of pool and what it covers
- If self insured for a type of insurance, use and update that section
- OCBOA – fill in chart with each type of insurance your village has, including amount of coverage and deductibles
- If participating in a group rating plan or self insured, use and update those paragraphs



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Note 9 – Defined Benefit Pension Plans

- Include notes for Ohio Public Employees Retirement System and/or Ohio Police and Fire Pension Fund, and/or Social Security, depending on what your employees participate in
- Update the percentages for the current year
- OCBOA – include the amount of your village’s contractually required contribution to OPERS and OPF in each note
 - There is a worksheet to help calculate this included in the handout



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Note 10 – Postemployment Benefits

- Include notes for Ohio Public Employees Retirement System and/or Ohio Police and Fire Pension Fund, depending on what your employees participate in
- Update the percentages for the current year
- OCBOA – include the amounts contributed for health care for the current year and two prior years
 - There is a worksheet to help calculate this included in the handout



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Hope You’re Staying Awake...



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Halfway There!



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Note 11 - Debt

- Describe the various debt obligations your village has, including bonds, notes, loans, and leases
- Regulatory – in the first chart, include amount of each debt outstanding at 12/31/CY and the interest rate
- OCBOA – in the charts, include amount of each debt outstanding at 12/31/PY, new debts issued, amounts retired during the current year, and then the amount outstanding at 12/31/CY will calculate automatically
- Both – fill in the chart with principal and interest payments remaining to be made on each type of debt; first 5 years separately and then remaining in 5 year pieces



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Note 12 – Construction and Contractual Commitments

- List any significant construction or other contractual commitments.
- Example – At December 31, 2016, the Village had \$81,145 in outstanding contractual commitments related to the construction of new fire station.
- OCBOA – List encumbrances, since those dollars are set aside for a particular use in the future.



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Note 13 – Contingent Liabilities

- These are items that could impact the village's financial position in the future
- Examples:
 - Lawsuits the village is involved in
 - Grants subject to audit
- We suggest you ask the Village Solicitor to write a letter indicating if there are any legal issues that could impact the Village's financial position



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Notes 14 through 17

- All these notes relate to *organizations that the village may be involved with*
- Each organization will need to be analyzed to see if it fits the definition of one of the types in Notes 14 through 17
- The definition of each type is listed in the shell to help get you started
- Look at prior audit reports to see if anything was listed
- Also look at audit reports of other entities in your area – larger city, county, or school district reports may include some of these organizations that the village is involved with too



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Note 18 – Related Party Transactions

- List any transactions that meet the definition listed in the shells; the opposite of an arm's length transaction
- There are a couple of examples in the shells but if you aren't sure if your situation applies, please consult with your village solicitor, call LGS, or ask your auditors



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Note 19 – Fund Balances (OCBOA)

- This note is not required for regulatory filers and is not included in the regulatory shell on the Auditor of State website
- The chart should match to the total Nonspendable, Restricted, Committed, Assigned, and Unrestricted on your financial statements, the note just provides more detail
- There is a worksheet in the financial statement file (OCBOA) where fund balance will be summarized
- If you need more information on how to categorize fund balance, please see Auditor of State Bulletin 2011-004 (<https://ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>)
- The Bulletin includes a chart with many of the common village funds and how the fund balance should be classified.



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Note 20 – Subsequent Events

- Significant financial event that happens after 12/31/CY
- Examples:
 - Issuance of debt
 - New levy or other major revenue
 - Major expenditures known after year-end



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Note 21 – AMP Ohio – Revenue Coverage

- This note will only apply to villages who are a member of the Ohio Municipal Electric Generation Agency joint ventures.



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Note 22 – Change in Basis of Accounting and Restatement of Net Position/Fund Equity (OCBOA)

- This note would be included if your village would change from reporting on a Regulatory Basis one year to reporting on an OCBOA Basis in the following year.



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Note 23 and Beyond (OCBOA)

- Notes 23 and beyond in the OCBOA shell will not apply to many villages. Please refer to the complete Handouts with examples for additional information.



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Any Questions on Notes???



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Hinkle System

- Everyone is required to use the *Hinkle System* to file their financial statements annually
- If you use UAN, filing will be part of the year end closing process
- For non-UAN users:
 - A link just for your entity will be emailed to the address our office has on file, and you must click that link to file
 - Financial data and certain demographic information is entered into the system
 - A full copy of your annual report, including required financial statements and notes, must be uploaded as one PDF file



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Hinkle System

- Frequently Asked Questions on the *Hinkle System* can be found on the web at:
<http://www.ohioauditor.gov/financialreporting/default.html>
- This same web page has "Quick Guides"; these documents give step by step instructions on how to use the Hinkle System, including screen shots for each step
- This same web page also has contact information to access your account or send in questions on the Hinkle System



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Creating a PDF File

- Most common software to create PDF files is Adobe Acrobat
- There are other software programs that you can access for free on the following websites:
 - Small PDF - <https://smallpdf.com/merge-pdf>
 - PDF Forge - <http://www.pdfforge.org/>
 - Office Converter - <http://www.office-converter.com/Convert-to-PDF>
 - PDF Merge - <http://www.pdfmerge.com/>



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Creating a PDF File

- Each software *may work slightly differently*, but typically you will “print” to create a file; we will demonstrate this
- Once you have all pieces saved as PDFs, then you will need to combine them into one file for uploading. Again, your software may work differently, but we will demonstrate on Adobe Acrobat so that you get a general idea of how it works
- You could also print each page of your report, scan it in, and save as a PDF (if you have a copier or scanner with that option)



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MD&A

- For villages choosing to *do* OCBOA, the annual financial report will include financial statements, notes, and the Management’s Discussion & Analysis (MD&A)
- The MD&A is a document that goes at the front of the report and gives an overview of the village’s financial picture for the year
- It includes tables and narratives; the tables compare the CY to the PY and the narratives describe any significant changes from year to year



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MD&A

- The MD&A is *unaudited*, but *your* auditors will still read it and offer suggestions or changes. This is to make sure that it doesn’t contradict the financial statements or notes
- At the end, there is a current issues section; this should only include items that have an impact on the village’s financial position and should be known facts; do not include things that may or may not happen



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