



OFFICE OF
HOUSING COUNSELING

U.S. Department of Housing and Urban Development Office of Housing Counseling



Facilitated by
Booth Management Consulting
7230 Lee Deforest Drive, Suite 202
Columbia, MD 21046

How to Read Financial Statements

December 20, 2018 2 pm EST

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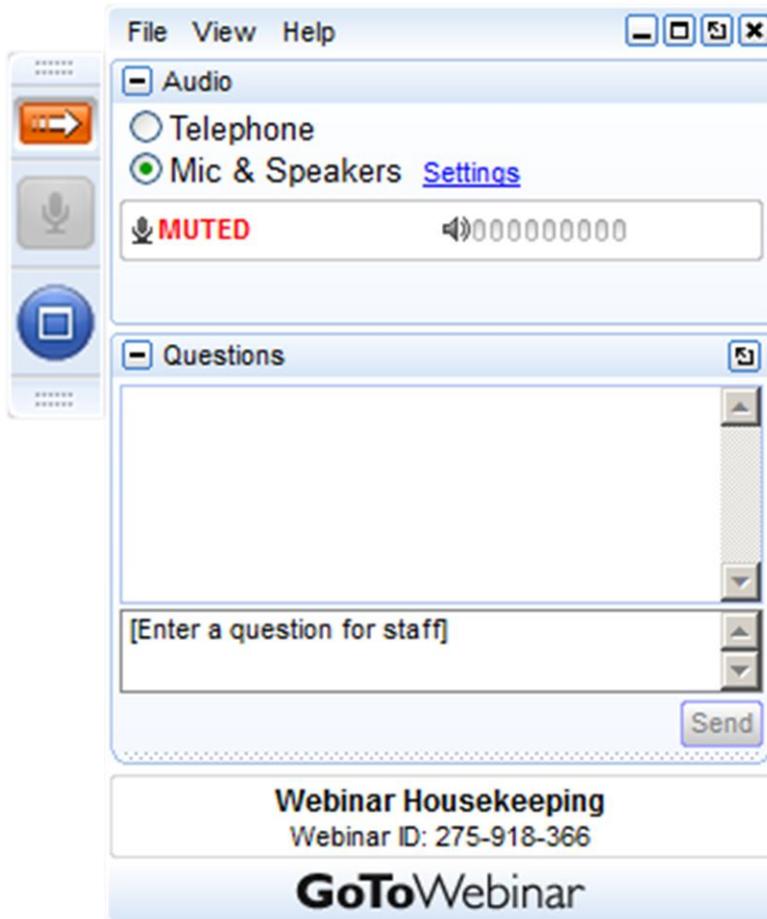
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**Facilitated By
Robin Booth, CPA
Audit Principal
Booth Management Consulting**

Training Topics



- Levels of Financial Reporting
- Key Financial Reports
- Types of Audit Opinions
- Single Audit Requirements
- Available Services
- Questions



Levels of Financial Reporting

Levels of Financial Reporting



Type of Report	Definition
Audit	Highest level reporting providing an opinion of whether the financial statements are prepared in accordance to Generally Accepted Accounting Principles (GAAP) based on extensive audit procedures including testing. Most expensive. Non-Profit organizations that do not have \$750,000 of Federal Awards are NOT required to have an audit.
Review	Provides limited assurance that there are no material modifications that should be made to the financial statements for them to be in conformity GAAP based on analytical procedures. Less assurance than audit because no opinion. Less expensive than an audit.
Compilation	Lowest level of reporting providing NO assurances that statements are consistent with GAAP. Based totally on representations by management. Least expensive.

Types of Financial Reporting



- Financial Statement Audit
 - Required by HUD OHC grant agreement
 - Smaller LHCA's may submit reviewed or compiled financial statements
 - SHFAs/Intermediaries/MSOs should always submit audited financial statements
- Single Audit
 - Type of audit
 - Not a financial statement audit
 - Required for agencies that expend \$750K or more of Federal awards during fiscal year

Key Financial Statements

Key Financial Statements



NON-PROFIT	FOR PROFIT	DEFINITION
Statement of Financial Position	Balance Sheet	Summarizes an organization's assets, liabilities and net assets (equity) at a specific point in time
Statement of Activity	Income Statement (Profit & Loss Statement)	Revenues and expenses and the changes in the amounts of each of the classes of net assets during a given period
Statement of Cashflows	Statement of Cash flows	Reflects changes in Statement of Financial Position Accounts and net assets affect cash and cash equivalents
Statement of Functional Expenses	Income Statement (Profit & Loss Statement)	Reports expenses according to both function and nature

Key Financial Statements



Statement of Financial Position

1. Total Assets, Liabilities, Net Assets
2. Composition of Net Assets
 - a. Unrestricted
 - b. Temporarily Restricted
 - c. Permanently Restricted
3. Ratio of Current Assets to Current Liabilities
4. Significant Current Portion of Long-term Debt

Key Financial Statements



Statement of Activities

1. Net loss is not always a bad thing
 - a. Non-cash transactions

1. Large fluctuations

2. Leveraging of funds from non-governmental sources



Key Financial Statements



1. Cash Flow
 - a. Operating
 - b. Investing
 - c. Financing
2. Functional Expenses
 - a. Ratio of Program, Administrative, and Fundraising to Total
 - b. United Way Benchmark – 75% Program



Key Financial Statements



Financial Disclosures — additional information attached to an entity's **financial statements**, usually as an explanation for activities which have significantly influenced the entity's **financial** results.

Key disclosures include:

- Debt
- Commitments/Contingencies
- Separate Legal Footnotes
- Subsequent Events

Types of Audit Opinions

Types of Audit Options



1. Unmodified (unqualified)
2. Modified (qualified)
3. Disclaimer
4. Adverse

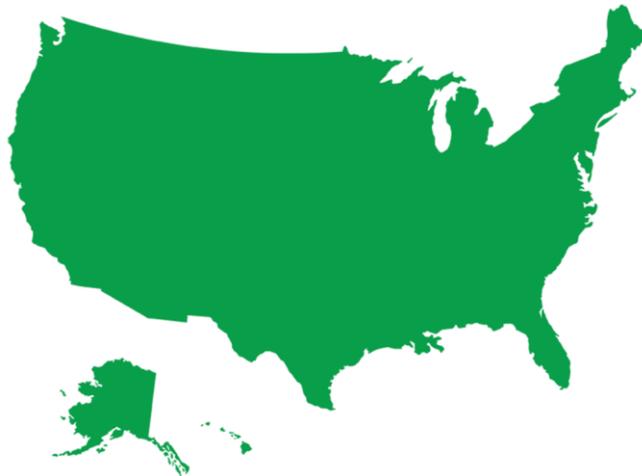


Types of Audit Opinions



Unmodified (Unqualified)

- An independent auditor's judgment that a company's financial records and statements are fairly and appropriately presented, and in accordance with Generally Accepted Accounting Principles (GAAP). An unqualified opinion is the most common type of auditor's report.



Types of Audit Opinions



SAMPLE AUDITOR'S OPINION LETTER (Unqualified Opinion)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
XYZ Organization
Washington, D.C.

We have audited the accompanying statement of financial position of XYZ Organization as of December 31, 20XX, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of XYZ Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Organization as of December 31, 20XX, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

March 8, 20XX

Types of Audit Opinions



Modified (Qualified)

- Modified or qualified audit opinions are given for two reasons. The **first** is scope limitation, which means that the auditor doesn't have access to enough information, or to relevant information. The **second** is in the circumstance that there is a departure from applicable financial reporting framework, which may be the result of either an accident or negligence on the part of the client being audited.

Types of Audit Opinions



SAMPLE AUDITOR'S OPINION LETTER (Qualified Opinion)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
XYZ Organization
Washington, D.C.

We have audited the accompanying statement of financial position of XYZ Organization as of December 31, 20XX, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of XYZ Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain audited financial statements supporting the Organization's investment in a foreign affiliate stated at \$_____ and \$_____ at December 31, 20X2 and 20X1, respectively, or its equity in earnings of that affiliate of \$_____ and \$_____, which is included in net income for the years then ended as described in Note X to the financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the foreign affiliate investment and earnings, the financial statements referred to in the first paragraph above, present fairly, in all material respects, the financial position of XYZ Organization as of December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 8, 20XX

Types of Audit Opinions



Disclaimer

An auditor may decide to issue a disclaimer of opinion if one of four circumstances are applicable:

1. **Lack of independence**
2. **Scope limitations**
3. **Substantial doubt about organization's ability to survive**
4. **Matters involving uncertainties**



Types of Audit Opinions



SAMPLE AUDITOR'S OPINION LETTER (Disclaimer)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
XYZ Organization
Washington, D.C.

We were engaged to audit the accompanying balance sheet of XYZ Organization (the "Organization") as of December 31, 20XX and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management.

The Organization does not maintain adequate accounting records to provide sufficient information for the preparation of the basic financial statements. The Organization's accounting records do not constitute a double-entry system which can produce financial statements.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion of the financial statements referred to in the first paragraph.

March 8, 20XX

Types of Audit Opinions



Adverse

- A professional opinion made by an auditor indicating that a company's financial statements are misrepresented, misstated, and do not accurately reflect its financial performance and health.



Types of Audit Opinions



SAMPLE AUDITOR'S OPINION LETTER (Adverse Opinion)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
XYZ Organization
Washington, D.C.

We have audited the accompanying statement of financial position of XYZ Organization as of December 31, 20XX, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of XYZ Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note X to the financial statements, the Company carries its property, plant and equipment accounts at appraisal values, and provides depreciation on the basis of such values. Further, the Company does not provide for income taxes with respect to differences between financial income and taxable income arising because of the use, for income tax purposes, of the installment method of reporting gross profit from certain types of sales. Accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at an amount not in excess of cost, reduced by depreciation based on such amount, and that deferred income taxes be provided.

Because of the departures from accounting principles generally accepted in the United States of America identified above, as of December 31, 20X2 and 20X1, inventories have been increased \$_____ and \$_____ by inclusion in manufacturing overhead of depreciation in excess of that based on cost; property, plant and equipment, less accumulated depreciation, is carried at \$_____ and \$_____ in excess of an amount based on the cost to the Company; and deferred income taxes of \$_____ and \$_____ have not been recorded; resulting in an increase of \$_____ and \$_____ in retained earnings and in appraisal surplus of \$_____ and \$_____, respectively. For the years ended December 31, 20X2 and 20X1, cost of goods sold has been increased \$_____ and \$_____, respectively, because of the effects of the depreciation accounting referred to above and deferred income taxes of \$_____ and \$_____ have

Types of Audit Opinions



Sample Auditor's Opinion: Adverse Opinion, cont'd.

not been provided, resulting in an increase in net income of \$_____ and \$_____, respectively.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of X Company as of December 31, 20X2 and 20X1, or the results of its operations or its cash flows for the years then ended.

March 8, 20XX

Single Audit Requirements

Types of Audit Opinions



Under OMB Uniform Guidance Subpart F

- Types of Reports
- Where to Look for Findings
- How to Understand Findings



Single Audit Requirements



Types of Reports

1. Report on **Internal Control** over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
2. Report on **Compliance** with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with Uniform Guidance, Subpart F



Single Audit Requirements



Sample

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Berkeley, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that

Single Audit Requirements



Sample

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-001 and 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency,

Single Audit Requirements



Where will I see the findings?

Single Audit Report

- Schedule of Findings and Questioned Costs



Single Audit Requirements (Example 1)



Financial Statements City of Dogwood, North Carolina

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 201X

Section I. Summary of Auditor's Results

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? X yes ___no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? ___yes X none reported

Noncompliance material to financial

statements noted ___yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? ___yes X none reported

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are

required to be reported in accordance

with Section 510(a) of Circular A-133 ___yes X no

Identification of major federal programs:

<u>CFDA No.</u>	<u>Names of Federal Program or Cluster</u>
66.458	Capitalization Grants for Drinking Water State Revolving Fund
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Single Audit Requirements (Example 1)

City of Dogwood, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 201X



Dollar threshold used to distinguish
between Type A and Type B Programs
Auditee qualified as low-risk auditee?

\$__300,000
___yes X no

State Awards

The only major State program for the City of Dogwood is the **Capitalization Grants for Drinking Water State Revolving Fund (66.458)**, which is a **State match on a federal program**. Therefore, this program has been included in the list of major federal programs above.

Section II – Financial Statement Findings

MATERIAL WEAKNESS

0X – 1 Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among City personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The city agrees with this finding and will adhere to the correction action plan on page 35-E-6.4 in this audit report.

Single Audit Requirements (Example 1)



City of Dogwood, North Carolina Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 201X

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

Single Audit Requirements



What do the Findings Mean?

1. Common Findings
 - a. Lack of segregation of duties
 - b. Lack of ability to prepare a complete set of financial statements (including footnotes)
2. Other Findings
 - a. Questioned costs, reporting, etc.
 - b. Are they repeat findings?

Available Services

Available Services



Training

Menu	Description	Onsite and/or Remote
Financial & Administrative Reviews	Review for compliance with HUD OHC and Uniform Guidance financial management requirements	Onsite
How to Read Financial Statements	Review key financial reports, types of audit opinions, red flags, etc.	Remote
Understanding Internal Controls	What are internal controls, how to determine proper internal controls, segregation of duties, etc.	Remote
Single Audit Findings Follow-up Trainings	How to develop and implement corrective action plans that address single audit findings; determine whether corrective action plans were properly implemented	Remote
Financial Management System	Training staff on maintaining a compliant financial management system, configuration of the accounting system; and development and training on relevant policies and procedures and internal controls	Optional

Available Services



Financial Analysis

Menu	Description	Onsite and/or Remote
Financial Capability Assessments (Financial Review)	Review agencies to verify their financial capability to perform the grant (also conducted if audited statements are not available)	Optional
Financial Review of Sub-Grantees for Parents	Conduct Financial Capability Assessments, grant execution documents, and/or review of other financial data of sub-grantee for a Parent	Remote
Risk Assessments	Perform a “Financial Fitness” review for high-risk agencies	Optional
Other	Review of Single Audits Findings and Corrective Action Plans, follow-up on findings from financial reviews, investigation of complaints, etc.	Optional
Grant Execution Packages	Review of financial statements and single audit reports	Remote

Available Services



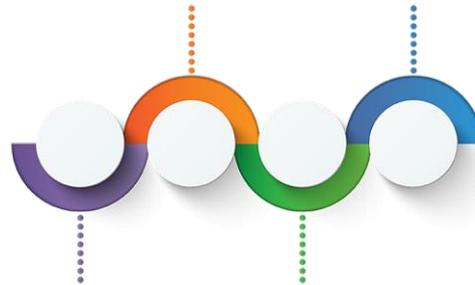
Action Plans

Menu	Description	Onsite and/or Remote
Review of Financial Management System	Perform an in-depth review of the agency's financial management system for compliance with the Uniform Guidance, identify deficiencies, recommend a corrective action plan	Onsite
Assessment of Compliance with the Uniform Guidance	Conduct readiness assessment of agencies compliance with Uniform Guidance and recommend technical assistance and/or training	Remote
Internal Control Assessment	Conduct an assessment of the grantees internal control to verify compliance with Uniform Guidance and recommend technical assistance and/or training	Optional

Requesting Services



1. **REQUEST HUD POC emails a BMC GTM and requests the service:** States service required, grantee name, agency's contact information, and available information to complete the service
2. **APPROVAL:** GTM reviews the request, verifies it meets contractual requirements, and schedules with BMC
3. **COMPLETION:** BMC will complete the service and submit the final deliverable to the GTMs



Comments and Questions

Please forward any questions to:
housing.counseling@hud.gov

with

**“How to Read Financial Statements”
in the Subject line**

Note: Only questions related to the HUD, Office of Housing Counseling, Comprehensive Housing Counseling grant will be accepted and responded to.