

**UNDERSTANDING YOUR AUDIT REPORT**  
*HOW TO GET THE MOST FROM YOUR AUDITED  
FINANCIAL STATEMENTS AND AUDIT REPORT*

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# Contents

We all go through the audit process each year and get an audit report. Let's learn three important things that will help us make the most of the audit report.

1. Audit report navigation
2. Which parts of the audit report should I focus on?
3. Learn how to analyze each fund to see how healthy your city is doing financially
4. Questions

# Audit Report Navigation

## Audit Report Contents:

1. Assuming no CAFR or MD&A...
2. Auditor's Reports (up to 3)
  - A. Report on Financial Statements
  - B. Report on Internal Control & Compliance
  - C. Report on Compliance for Major Federal Programs (only needed when entities spend \$750K or more of federal money in a fiscal year)
3. Basic Financial Statements
4. Required Supplementary Information
5. Supplementary Information
6. Other Reports and Schedules

# Which Parts of the Audit Report Should I Focus On?

1. Review Auditor's Reports
2. Basic Financial Statements – review funds for adequate operating reserves / rates, etc. – as discussed later
3. Review any Audit Findings – will be listed in the Auditor's Reports or Schedule of Findings and Questioned Costs/Responses

# Fund Financial Analysis

1. Review each major fund (i.e. General, Street, Water, Sewer, etc.) and focus on the following two financial performance measures
  - A. Net change in fund balance / change in net position
  - B. Adequate fund balance or for propriety funds, unrestricted net position
2. The “Net Change in Fund Balance / Change in Net Position” focuses on whether the fund operated at a profit or loss. Problems here may be indicative of a need to change rates, etc.

# Fund Financial Analysis

3. An “Adequate Fund Balance / Unrestricted Net Position” should be enough to cash flow the fund between its primary revenue payments and to provide a reserve for unanticipated/contingency items.

# Questions?

1. Congratulations – you made it through it!
2. Thank you – any questions?

