



NADO EDFS Spring 2012

Preparing for Audits

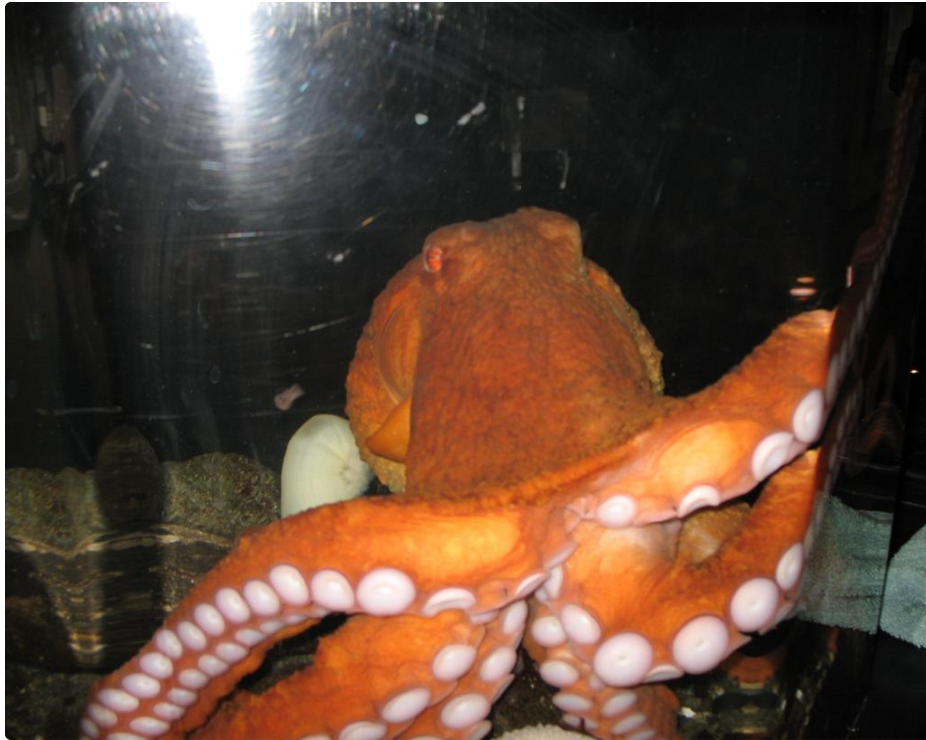
April 25, 2012

Burlington, VT



Sub topics

- Loan Confirmations
- Loan Loss Reserve
- Accrued Interest Receivable
- Footnote Preparation
- Schedule of Federal Awards
- Management Discussion and Analysis
- Documentation, Documentation.....



Knowing what to expect and being prepared will make your audit smoother.

The Auditors are Coming!

LOAN CONFIRMATION LETTERS

- Purpose is to provide verification of loan terms, balances and authenticity of loan clients.
- Letters might not be useful depending upon sophistication of loan client's bookkeeping.
- Who should prepare them?

- Typically you will prepare the letters
 - Save money-the auditors will charge for this and you have the records and capabilities to do them.
 - Letters are mailed directly to loan clients with instructions and return envelopes to mail their reply directly to the auditor.
- Why this doesn't work
 - Loan Clients might call you to get the information to use to complete the form!
 - Delinquent clients will not open or return the forms.

- Be upfront with auditors
 - If loan clients are not completing the form themselves tell the auditor.
 - Our case-this was happening we spent hours preparing the letters, mailing them out, and then answering the multiple phone calls for information. I told the auditors and they said stop mailing the letters that they would do alternative testing on the loans.
 - Actually made our lives easier and cut costs!



Loan Loss Reserve

- Loan program requirements
- EDA-RLF follow your own plan document
- USDA-IRP
Mandatory USDA-RD 3% of loans outstanding
- ARC-RLF follow your plan document
- GAAP requirements
- If probably not collectible in full
- Amount can be reasonably estimated
- Purpose is to properly measure value of Loans at given time.



How to estimate loss reserve

- No one knows your loan clients better than you-definitely not the auditor
- Document your rationale in assigning uncollectible percentages or amounts.
- If well documented and supported then the auditors are likely to agree with you
- So how do we do it?



Loan Client: Mom and Pop Grocery

- Loan made 2005 \$100,000 for 15 year term at 4% current balance is \$72,065.
- Collateral is real property, equipment and personal guarantee
- Haven't been able to make normal payments for 2 years, they make sporadic payments and are able to pay the interest
- Mom and Pop are now in 70's and business keeps declining as the neighboring business shut down and the property is vacant.



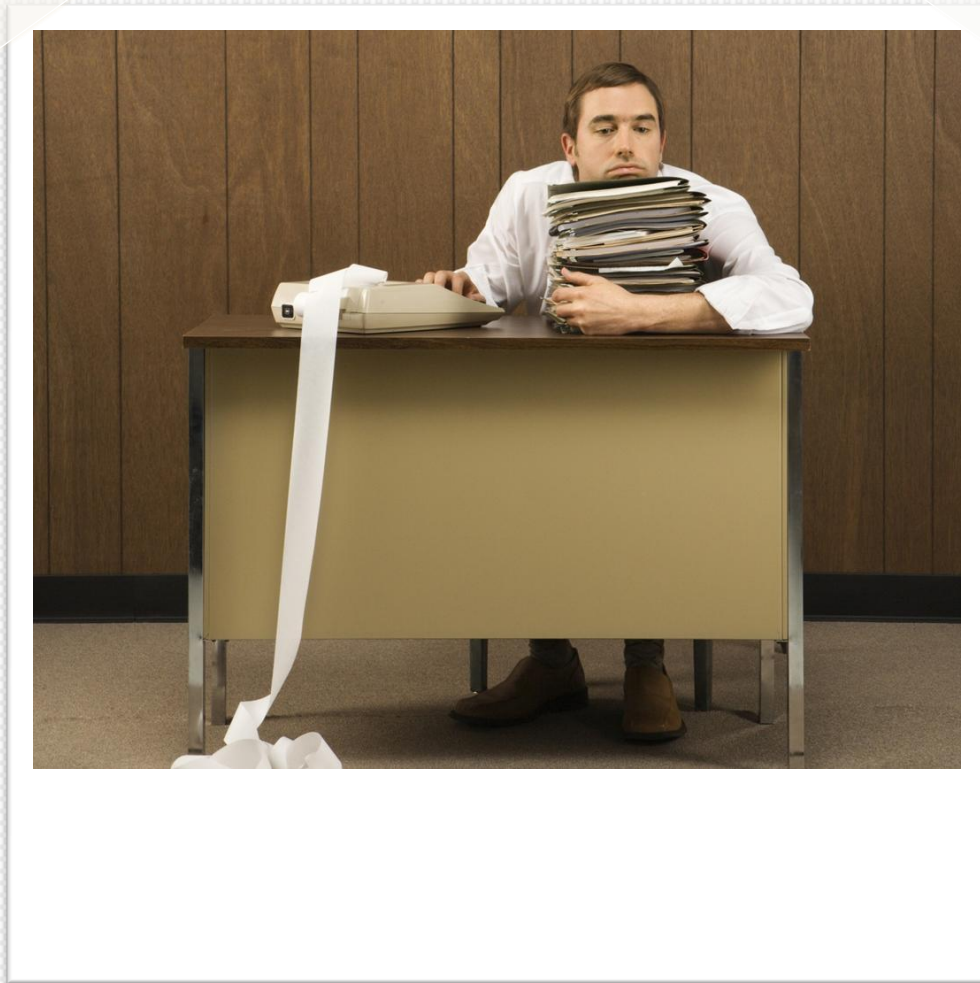
Mom and Pop Grocery

- Would we value the loan at full value or should it be reported at a lesser amount?
- What factors influence your decision?




Mom and Pop Grocery -2


- Same scenario except the neighboring vacant properties have just been sold to Staples.
- Does this change your earlier answer?



Accrued Interest Receivable

- Most loan software packages will prepare a report calculating the unpaid interest on each loan as of a given date.
- Is this all you need to do?
- No, because if you have any loans that you have just created a loan loss reserve for then you probably shouldn't record the interest due at full value.

- 
- Normally once you determine what percentage of each outstanding loan is collectible you can apply that same percentage to the accrued interest.
 - Document again and give worksheet to auditor to support valuation reflected on your financial statement.



A patient was at her doctor's office after undergoing a complete physical exam. The doctor said, "I have some very grave news for you. You only have six months to live."

The patient asked, "Oh doctor, what should I do?"

The doctor replied, "Marry an accountant."

"Will that make me live longer?" asked the patient.

"No," said the doctor, "but it will SEEM longer."



Footnote preparation

- Preparing the footnotes yourself will not only save you money but will lessen your stress level.
- Auditors will provide the template they use for the Footnotes
- so all you might need to do is update the amounts



D. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present MOVRC, the primary government, with its component unit MOVADC. As discussed below, this component unit is included in the MOVRC reporting entity due to the significance of its operational and financial relationship with MOVRC.

E. Component Unit

MOVADC and MOVRC are governed by an identical board of directors and commonly controlled through a single administration. Although it is legally separate from MOVRC, MOVADC is reported as a blended component unit as if it were part of the primary government.

F. Cash and Cash Equivalents

Cash and cash equivalents include deposits with original maturities of less than three months and consist of interest and non-interest earning deposits with local financial institutions.

G. Use of Estimates

The preparation of basic financial statements in conformance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

A significant estimate that is particularly susceptible to change in the near term is the determination of the allowance for loan losses.

H. Loans Receivable and Allowance for Loan Losses

Interest income on loans is accrued based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Any interest previously accrued on a loan placed on nonaccrual status is reversed and charged against current earnings. Interest on such loans is thereafter included in earnings to the extent actually received.

MOVADC uses the allowance method to provide for loan losses. The provision for loan losses charged to operating expense is based on loan loss experience and other factors which, in management's judgment, deserve current recognition in estimating possible losses.

Other factors considered by management include specific loan evaluations, growth and composition of the loan portfolio, the relationship of the allowance for loan losses to outstanding loans, trends in delinquencies, and economic conditions. Assets acquired in loan foreclosure transactions are recorded at the lower of cost or estimated net realizable value, with any write-downs charged to the allowance for loan losses.

NOTE 3. NOTES RECEIVABLE

MOVRC and MOVADC administer loan programs for Federal and State agencies.

MOVRC's notes receivable consists of receivables for loans made under the following agencies loan programs: United States Department of Commerce, Economic Development Administration Revolving Loan Fund Program (EDA-RLF); Appalachian Regional Commission Revolving Loan Fund (ARC-RLF); and the West Virginia Development Office Micro Loan Program (MLF).

MOVRC's notes receivable by loan program at June 30, 2011, was as follows:

	<u>EDA-RLF</u>	<u>ARC-RLF</u>	<u>MLF</u>	<u>RBEG</u>	<u>TOTAL</u>
Notes receivable	\$ 320,060	\$ 1,069,131	\$ 384,785	\$ 42,229	\$ 1,816,205
Less Allowance	<u>30,504</u>	<u>95,402</u>	<u>224,787</u>	<u>-</u>	<u>350,693</u>
Notes Receivable, net	<u>\$ 289,556</u>	<u>\$ 973,729</u>	<u>\$ 159,998</u>	<u>\$ 42,229</u>	<u>\$ 1,465,512</u>

MOVADC's notes receivable consists of receivables for loans made under the United States Department of Agriculture, Rural Business Cooperative Service Intermediary Relending Program (IRP). MOVADC's notes receivable at June 30, 2011, was as follows:

	<u>IRP</u>
Notes receivable	\$ 2,285,714
Less Allowance	<u>195,036</u>
Notes Receivable, net	<u>\$ 2,090,678</u>

The allowances for loan losses reflects the adjustments made by management regarding their estimate of the allowance for loan losses based on a historical experience rate as a percentage of total loans receivable and expected losses based on loan status and collateral position. The allowances for loan losses for the various loan programs are as follows:

	<u>EDA-RLF</u>	<u>ARC-RLF</u>	<u>MLF</u>	<u>IRP</u>
Balance at July 1, 2010	\$ 21,089	\$ 43,900	\$ 199,764	\$ 164,098
Provision for loan losses	<u>9,415</u>	<u>51,502</u>	<u>25,023</u>	<u>30,938</u>
Balance at July 1, 2011	<u>\$ 30,504</u>	<u>\$ 95,402</u>	<u>\$ 224,787</u>	<u>\$ 195,036</u>



Schedule of Expenditures of Federal Awards (SEFA)

- Almost done!
- Schedule lists each grant or federally funded program within the grant period.

MID-OHIO VALLEY REGIONAL PLANNING AND DEVELOPMENT COUNCIL
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2011

Federal Grantor Pass-through Grantor Program Title	CFDA Number	Pass-through Grantor's Number	Grant Grant End	Total Federal Expenditures
U.S Department of Labor				
Pass-through the National Council on Aging, Inc				
Senior Community Service Employment Program	17.235	AD-20013-BR-0-55	6/30/11	\$ 519,798
Appropriation Act Senior Community Service Employment Program	17.235	AD-20013-10-60-A-11-55	6/30/11	<u>92,617</u>
Total U.S Department of Labor				<u>612,415</u>
Corporation for National and Community Services				
Pass-through the Office of Economic Opportunity (OEO)	94.016	10SCSWV001	12/31/10	87,375
Senior Companion Program	94.016	11SC121578	12/31/11	106,250
ACTION: Foster Grandparent	94.011	10SF5WV002	3/31/11	286,729
ACTION: Foster Grandparent	94.011	11SF125159	3/31/12	102,309
Retired Senior Volunteer Program	94.002	10SF5WV006	3/31/10	44,057
Retired Senior Volunteer Program	94.002	11SR125160	3/31/11	<u>20,000</u>
Total Corporation for National and Community Services				<u>646,720</u>
Appalachian Regional Commission				
Revolving Loan Fund	23.011	01-39-02806		1,169,867
Appalachian Local Development District Assistance	23.009	WV-2264-06-C37	12/31/10	38,808
	23.009	WV-2284-C38	12/31/11	<u>58,212</u>
Total Appalachian Regional Commission				<u>1,266,887</u>
U.S. Department of Commerce, Economic Development Administration				
Revolving Loan Fund	11.307	01-39-02808		339,056
Support for Planning Organizations	11.302	01-830-8895	3/31/11	52,500
Support for Planning Organizations	11.302	01-83-08895-01	3/31/12	<u>15,064</u>
Total U.S. Department of Commerce, Economic Development Administration				<u>406,620</u>
Expenditures of Federal Awards				<u>\$ 2,932,642</u>

The notes to the financial statements are an integral part of this statement.




Management Discussion and Analysis (MD&A)


- If you are already doing this great!
- If not it is very helpful for readers of your statements or give users a quick glimpse into your recent year.
- Make it short, easy to read and graphic
- Just the highlights and major accomplishments



MOVRC outline

- Financial Highlights-bullet points about # people served in programs, #loans closed, #jobs created, \$ funds leveraged, #infrastructure jobs and size
- Describe the sections in the audit report and what they contain (Stmt Activities, Cash Flow etc.


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- Reporting on Financial Activities-boring but necessary. This years # compared to last years # for Revenue and Expenses. If significant variances –why.
 - We use graphs here to show revenue by source and expenses by function
 - Description of Major funds/programs. Like new program started or old one finished

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- General economic factors in region and impact on the agency
 - Lastly who to contact for questions
 - Templates and examples can be found on internet. Just follow along and customize to your agency.

DOCUMENTATION, DOCUMENTATION

- Items to always give to auditors
 - Listing of loan clients in collection status and copies of any legal actions filed. If on going relationship with auditors you only have to give current year data.
 - Listing of all outstanding loans-should support the value placed on the financial statement

- Listing/worksheet of loan loss reserve calculations-make sure it ties to the actual financial statements. Typically a journal entry has been made to update the general ledger.
- Any new regulatory updates to the program. Like ARC-RLF distressed counties.
- Have available copies of reports filed with funding agencies.

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- Review loan files before the auditors arrive. You know they are going to ask for something you don't have pulled for them-be ready when they ask.
 - If you know they always ask for something each year-go ahead and pull it for them and have waiting. No need to let them call all the shots!



Lastly-

- They are doing you a service!
- Don't let this cause a migraine-unless you have something to hide or a simply nasty auditor
- If you have a nasty auditor-you can always change auditor firms next year!

**And the
auditors are
satisfied and
life returns
to normal.**



Thank you and its Lunchtime.....