

PREPARING A CAFR
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Objectives

- Basic sections of the CAFR
 - Transmittal letter
 - MD&A
 - Entity-wide statements and reconciliations
 - Notes to the financial statements
 - Fund-level statements
 - RSI
 - Statistical section
- Common deficiencies

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Introduction

Government

- Service-driven
- Taxpayers
- Taxes paid / services
- Cash flow
- Legal budget
- Restricted resources
- Elected officials

For-Profit Business

- Profit-driven
- Customers
- Price / product
- Net income
- Operating budget
- Common resources
- Selected management

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Users Have Different Needs

Users

- Citizens
- Investors
- Creditors
- Elected representative
- Oversight organizations

Needs

- Stewardship of public resources (accountability)
- Data for investment decisions
- Ability to pay debt (willingness to levy taxes)
- Accountability
- Compliance and accountability

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Generally Accepted Accounting Principles

- Designed to meet the common information needs of users of government financial statements
- GAAP for governments was expanded to meet the unique aspects of government

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Purpose of a CAFR

- Shows how tax dollars were spent
- Create and enhance public trust
- Avoid misuse of public money
- Provide a measure of financial transparency
- Promotes fiscal responsibility
- Keeps public officials accountable to voters

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Basic Sections of a CAFR

- **Introductory section:** General information on government's structure and services
- **Financial section:** Basic financial statements including notes, required supplementary information (RSI) and supplementary information (SI)
- **Statistical section:** Broad range of financial and demographic information in the form of 10-year trend data

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The Four Cs

- Completeness
- Consistency
- Compliance
- Clarity

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Completeness

Financial report should include:

1. All required and applicable basic financial statements
2. All required supplementary information (MD&A, budgetary comparisons, etc.)
3. All required and applicable footnote disclosures
4. Any other supplementary information that may be prescribed by non-accounting standard setters

Auditor's report should cover all financial statements, RSI, SI and other information presented.

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Consistency

Amounts should agree or reconcile between:

- One basic financial statement and another
- Basic financial statements and supplementary information (MD&A and other RSI, SI and OI)
- Basic financial statements and footnotes
- One supplementary information schedule and another

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Compliance

Financial statements, schedules and footnotes should:

- Contain all required and applicable elements needed to comply with applicable financial reporting framework (GAAP or OCBOA)
- Properly classify and display financial statement information in accordance with applicable financial reporting framework
- Note disclosures that are consistent with the applicable financial reporting framework

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Clarity

Financial report should:

- Avoid boilerplate language and instead include information unique and specific to the government
- Contain reconciliations that have sufficient detail so that readers may clearly identify and understand the reconciling items
- Have footnotes that expand upon, support, and add clarity to the amounts reported in the basic financial statements

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Introductory Section: Transmittal Letter

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Transmittal Letter

- Should be dated on / after date of the independent auditor's report
 - CAFR cannot be transmitted before audit
- Include recommended content:
 - Long-term financial planning
 - Relevant financial policies

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Transmittal Letter (cont...)

- Exclude certain contents that were previously recommended:
 - Cash management
 - Risk management
 - Pension plans

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Transmittal Letter Example

Long term Financial Planning

Long-term financial planning is performed on an ongoing basis. The controlling document is the City's 5-year strategic financial plan which includes reserves by fund that fall within the policy guidelines set by the Council and reviewed by the Citizens' Budget Committee during the budget process. Reserve policy guidelines are measured as a percentage of annual operating expenses and generally range between 15 and 20 percent depending on the fund.

Along with the adoption of the 2010-2011 biennial budget, certain utility rate fees increases were approved by City Council with the support of the Citizens' Budget Committee and the Utility Advisory Board. Effective January 1, 2010, a five percent rate increase for water, sewer, and surface water management fees was approved and effective July 1, 2010, a five percent rate increase was approved for parks and street maintenance fees.

In regards to the City's long-term debt obligations, the City had \$7.6 million outstanding in two general obligation bond issues, \$8.6 million outstanding in two full faith and credit obligations, and \$1.2 million in long-term debt outstanding as of June 30, 2010.

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Transmittal Letter Example

RELEVANT FINANCIAL POLICIES: Over the years, through sound fiscal management, the City has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and allow flexibility in addressing budgetary challenges. As of June 30, 2010, the City's General Fund has an unreserved and undesignated fund balance of \$29.5 million, which represents 12% of total expenditures. Traditionally, the policy has been to maintain General Fund reserves at a minimum of 7 to 10% of expenditures.

Further, the City has a long-standing practice of recognizing and reserving for known and anticipated liabilities. The City fully funds its compensated absences and self-insurance liabilities. Additionally, the City has established an irrevocable trust for other post-employment benefits (also known as retiree medical) and continues to make the annual required contribution (ARC) to ensure this future obligation is fully funded.

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Financial Section: Management's Discussion & Analysis (MD&A)

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MD&A Basics

Topics limited

Don't repeat discussion already in Letter of Transmittal.

Considered RSI

- Not part of basic financial statements
- Not within scope of independent audit
 - Auditor is responsible for performing limited procedures.

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MD&A Basics

Location

- Immediately following report of independent auditor
- Immediately preceding G-W statement of net assets
- All other RSI presented following notes

Articulation

- Amounts reported in MD&A should tie to amounts in basic financial statements.

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MD&A Basics

Scope of the analysis should be comprehensive.

- Must address major funds beyond the General Fund

Analysis should be insightful and descriptive.

- Explain the underlying reasons for significant changes and variances

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MD&A Basics

Topics

- Discussion of basic financial statements
- Condensed comparative data
- Overall analysis
- Fund analysis
- Budget variances in general fund
- Capital asset and long-term debt activity
- Infrastructure (modified approach)
- Other potentially significant matters

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MD&A: Basic Financial Statements

Describe GW and fund financial statements

- Governmental and fiduciary fund financial statements provide *additional information*.
- Proprietary fund financial statements *reinforce information* provided in G-W financial statements.
- Relationship between *governmental funds* and *governmental activities*

See Handout 1

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MD&A: Condensed Comparative Data

Data for comparative basic financial statements should be complete.

- Required even if presented in basic financial statements
- Numbers must tie to basic financial statements.
- Level of detail specified by GAAP

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MD&A: Condensed Comparative Data

Include condensed financial data for each of the last 3 years

- Current fiscal year vs. previous fiscal year
- Previous fiscal year vs. two years prior

NOTE: If not comparative, only include current fiscal year vs. previous fiscal year

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MD&A: Condensed Comparative Data

Level of detail

- Total assets (capital vs. other)
- Total liabilities (long-term vs. other)
- Total net assets (by class)
- Program revenue (by major source)
- General revenue (by major source)
- Total revenues
- Program expense (by function)

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MD&A: Condensed Comparative Data

Level of detail (cont.)

- Total expenses
- Excess or deficiency
- Contributions
- Special / extraordinary items
- Transfers
- Change in net assets
- Ending net assets

See Handout 2

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MD&A: Overall Analysis

Government's overall financial position and results of operations

- Improved or deteriorated
- Focus on *reasons* for significant changes.
- Address *governmental* and *business-type* activities separately.
- Consider any important economic factors that significantly affected operating results for the current period.
- Emphasize current period.

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MD&A: Fund Analysis

Significant balances and transactions of individual major funds

- Focus on reasons for significant changes in fund balances (governmental funds) or fund net assets (proprietary).
- Any significant limitation on the future use of fund resources

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MD&A: Budget Variances in General Fund

Significant variances

- Original budget vs. final amended budget
- Final amended budget vs. actual

If variances expected to have significant effect on future services or liquidity, include the reasons for variances (if known)

- Explanations should be sufficiently detailed to be meaningful (e.g., not “variance reflects higher than expected expenditures”).

See Handout 3

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MD&A: Capital Assets and Long-Term Debt Activity

Significant changes in capital assets and long-term debt

- Commitments for capital expenditures
- Changes in credit ratings
- Debt limitations that could affect financing of planned facilities or services

Do not repeat note disclosure.

- Reference to the notes

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MD&A: Infrastructure (Modified Approach)

- Current-condition levels vs. target-condition levels
- Significant changes in condition levels
- Significant differences between estimated and actual maintenance and preservation expense

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MD&A: Other Potentially Significant Matters

Currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations

- “Currently Known” = known by management as of the date of the independent auditor’s report

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MD&A: Other Potentially Significant Matters

Examples

- Award and acceptance of major grant
- Adjudication of significant lawsuit
- Reassessment of taxable property
- Completion of agreement to locate major manufacturing plant in city
- Adopted increase in sales tax rate
- Flood damage to infrastructure
- Renegotiated labor contract

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MD&A Clarity: Inappropriate Discussion

Economic Factors and Next Year's Budget and Rates

As for the city's business-type activities, we expect that the 2012 financial results will improve.

- The utility authority financial condition should improve if the weather pattern returns to normal and the amount of rainfall returns to normal levels.
- The transportation authority financial condition will improve when two of the larger city-owned garages are reopened which will occur once federal grants are awarded to complete construction.

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MD&A Clarity: Inappropriate Discussion

Economic Factors and Next Year's Budget and Rates

As for the city's business-type activities, we expect that the 2012 financial results will improve based on these recent rate decisions:

- The utility authority trustees approved a 4% rate increase for all water customers effective January 1, 2012.
- The transportation authority trustees authorized a 15% increase in parking fees, both at the city-owned garages and for on-street meters.

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MD&A Common Deficiencies

- Numbers don't articulate.
- Scope of analysis is too narrow.
- MD&A must provide needed analysis for both government-wide financial statements and the individual major fund financial statements.
 - Governments often address one at the expense of the other, generally omitting analysis of major individual funds.
 - If the same transaction or event affects both, the analysis should be crafted in a manner that minimizes duplication.

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MD&A Common Deficiencies

- Analysis in MD&A should also cover both revenues and expenses / expenditures.
 - Expenses / expenditures often neglected

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MD&A Analysis: Inadequate

“Unrestricted net assets of governmental activities decreased by \$3.4 million from the prior year, resulting in a \$2.9 million deficit at the end of the year.”

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MD&A Analysis: Adequate

“The deficit in unrestricted governmental net assets arose primarily because of three factors. First, the City did not include in the budget sufficient amounts needed to fully finance liabilities arising from self-insured property and casualty claims. Second, the City also did not include in the current and past budgets amounts needed to pay for unused employee vacation and sick days as they are earned. The City will need to include these amounts in future years’ budgets as they come due. Finally, during the past two years, sales tax revenues and State grants have fallen short of amounts originally anticipated, and the City Council decided to draw down accumulated cash balances to delay the need to approve tax, rate or fee increases.”

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*Financial Section:
Entity-Wide Statements*

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Entity-wide Financial Statements

- Report governmental activities and business type activities in total
- Discretely presented component units
- Excludes fiduciary funds
- Economic resources focus / full accrual basis of accounting
 - Includes all long-term assets and liabilities

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Statement of Net Assets

- What does the government own, and what does it owe?
- What are the government's short-term financial needs, and what are its available resources?
- What are its liquid assets?
- What's left over after all liabilities are paid? (net assets / net position)
 - Is this money the government can spend?

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Statement of Net Assets

What does the statement really tell me about the government?

- Overall financial condition: ability to meet obligations as they come due and finance the services its constituency requires
- Current assets vs. current liabilities (liquidity)

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Statement of Net Assets

- Long-term viability (solvency): Degree to which assets are financed through borrowing – i.e., extent to which assets will be needed to satisfy debts rather than be available for providing public services
- Trend data from prior years: see the MD&A or the Statistical Section

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Statement of Net Assets: Common Deficiencies

- Net pension / OPEB obligation should be presented as long-term
- Debt should be reported net of related premiums and discounts
- Net asset calculations incorrect

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Net Assets

- Invested in capital assets, net of related debt
- Restricted
 - Restricted by enabling legislation or by other external constraints such as from creditors, grantors, contributors, laws or regulations
- Unrestricted

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Invested in Capital Assets, Net of Related Debt

- Only capital-related debt should be included
- Premiums, discounts, and deferred refunding amounts affect the carrying value of the debt, so should “follow the debt” in calculating this component
- Costs of issuance – while they relate to debt issuances, they do not affect the carrying value of the debt, and so are excluded from this calculation.

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Invested in Capital Assets, Net of Related Debt

Unspent bond proceeds

- Portion of debt related to the unspent proceeds should NOT be included in the calculation – net the unspent proceeds with that portion of the debt
- In effect the unspent proceeds / related debt net to \$0
- Either a) deduct the related debt from the calculation, or b) add the unspent proceeds to the calculation which effectively offsets the debt

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Invested in Capital Assets, Net of Related Debt

- Refunding bonds / refunded bonds
 - If refunding bonds are refinancing bonds that were originally capital-related, then the refunding bonds are included in the calculation

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Invested in Capital Assets, Net of Related Debt

- Accrued interest payable on capital related debt is excluded.
 - Include with unrestricted net assets, unless there is a fund to accumulate resources to repay the debt, in which case the accrued interest could be included in that component
- Interfund loans for capital asset acquisition purposes: this is NOT considered capital-related debt

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Example Calculation

Capital assets:

Capital assets	\$31,400,000
Accumulated depreciation	<u>(8,900,000)</u>
	22,500,000

Capital-related debt:

GO bonds	\$10,200,000
Capital leases	1,000,000
Unamortized premiums	200,000
Unamortized discounts	(100,000)
Restricted cash – unspent bond proceeds	<u>(1,200,000)</u>
	10,100,000

Net assets invested in capital assets, net of related debt	\$12,400,000
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Restricted Net Assets

- Should be reported by major category on the face of the statement
 - Disclosure is not a substitute for display.
- Cannot report negative restricted net assets

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Statement of Activities

- Starting point: Total cost of governmental services by function (i.e., expenses)
- What program revenues does the entity generate to support its services?
 - Charges for services
 - Grants and contributions

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Statement of Activities

- Net cost of services = taxpayer burden
- Change in net assets (equivalent of net income in a for-profit entity)

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Statement of Activities

What does this statement tell me?

- The cost of providing services
- The tax burden on citizens to finance services
- Degree to which each functional area requires taxes or general revenues for financing
- Whether the government is raising enough resources to finance its operations
- Diversity of revenues and trends over past years can demonstrate exposure to financial difficulty if a source of revenue dries up

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Statement of Activities

What does this statement tell me?

- Did the government finance that year's services with revenues from that year (intergenerational equity)?
- See MD&A and Statistical Section for trend data.

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Statement of Activities: Common Deficiencies

- Special items are situations that are within the control of management.
- Losses on the sale of capital assets should be reported as functional expenses for the governmental activities and as an expense of the related activity for business-type activities.

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Statement of Activities: Common Deficiencies

- Capital grants and contributions should be reported consistently between the business-type activities and on the enterprise fund statements.

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Statement of Activities: Common Deficiencies

- Interest subsidies on BABs or similar bonds = program revenues, operating grants and contributions
- Grants can be General Revenues if programs for which amounts are to be used are not specifically identified, and amounts not specifically identified for each

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Statement of Activities: Common Deficiencies

- Grants are only “capital” if restricted to the acquisition, construction or improvement of capital assets.
- Contributed capital assets = program revenues

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Statement of Activities: Common Deficiencies

Reporting of capital assets transferred from governmental activities to business-type activities:

- At enterprise-fund level = capital contribution (not a transfer)
- At entity-wide level on statement of activities:
 - Business-type activity: Change from reporting it as a capital contribution to a transfer in
 - Governmental activity: Transfer out

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*Financial Section:
Reconciliation of Entity-Wide
Statements to Fund-Level
Statements*

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Reconciliations

- Most differences pertain to capital assets or long-term liabilities.
- Detail should be provided for amounts combined or netted. Can be displayed on the statement or in the notes to the financial statements
- Common deficiency. Inability to agree amounts on the reconciliations to other components of the CAFR

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Reconciliations: Exercise

Find where the following tie within the City of Springfield CAFR:

- Capital assets & accumulated depreciation
- Long-term liabilities
- Capital outlay & depreciation
- Net effect of other capital asset items
- Repayment of principal
- Premiums/refundings activity
- Internal service funds items

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Reconciliations: Capital Assets

Fund-level:

- Acquisitions are expensed (usually as capital outlay expenditures)
- Proceeds from sales are often reported as other financing sources
- Depreciation not reported

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Conversion Entry: Capital Assets

	Debit	Credit
Land	1,000,000	
CIP	20,000,000	
Buildings	5,000,000	
M&E	1,500,000	
Infrastructure	20,500,000	
CIP (closed projects)		20,500,000
Capital outlay exp.		27,500,000
- for the acquisition of capital assets (increases)		

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Conversion Entry: Capital Assets

	Debit	Credit
Gen. Gov't. Exp	3,750,000	
Public Safety Exp	2,500,000	
Public Svcs Exp	20,000,000	
Health Svcs Exp	2,000,000	
Culture/Rec Exp	750,000	
Accumulated Deprec.		29,000,000
- to record current year depreciation expense		

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Conversion Entry: Capital Assets

	Debit	Credit
Land		500,000
Buildings		1,500,000
M&E		500,000
Accumulated Deprec.	1,475,000	
Loss on disposal	525,000	
- to record loss on disposal of assets (assumes no sales proceeds)		

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Reconciliations: LT Debt

Fund-level:

- Proceeds of bond issuances are an other financing source (revenue)
- Premiums / discounts are additional financing sources
- Principal payments are debt service expenditures

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Conversion Entry: LT Debt

	Debit	Credit
Issuance of bonds (OFS)	10,000,000	
GO bonds payable		10,000,000
Premium from issuance of bonds (OFS)	300,000	
Premium liability		300,000
- to record proceeds from issuance as increase in the liability		

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Conversion Entry: LT Debt

	Debit	Credit
GO bonds payable	500,000	
Debt service: Principal expenditures		500,000
Premium liability	15,000	
Interest expense		15,000
- to record principal expenditures as a reduction to the liability - to record current year amortization of premiums		

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Reconciliations: Other LT Liabilities

Fund-level:

- Compensated absences – nothing recorded other than payment for amounts taken
- Interest payable – generally not recorded
- OPEB, pollution remediation – generally, only expend amounts paid on pay-as-you-go basis

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Conversion Entry: LT Liabilities

	Debit	Credit
General government	50,000	
Public safety	200,000	
Public works	130,000	
Culture & recreation	20,000	
Compensated absences liability		400,000
- to record increase in compensated absences liability		

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Reconciliations: Other Common Items

Internal service fund “lookback”

- Removal of profit / loss; allocation to functional expenses

Revenues deferred at the fund level, considered “earned” at the entity-wide level

- Examples: Special assessments, receivables not considered “available” at the fund level

Cost of issuance / related amortization

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Summary

- Identify accounts / balances that affect entity-wide statements.
- Develop entity-wide conversion entries.
- Tools to convert fund-level trial balance to entity-wide
 - Functional allocation of program revenues for statement of activities
- Prepare net asset calculations.
- Prepare reconciliations.

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Financial Section: Fund Financial Statements

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Major Funds

Many governments are failing to present as major funds governmental funds and enterprise funds that clearly meet both the 10% test and the 5% test for mandatory major fund reporting.

- Major initiatives, or lack thereof, especially in capital projects, can alter the results of applying the 10% / 5% tests from one year to the next.
- Important to reapply these tests annually

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Governmental Funds

Inflows and outflows related to current and advance refundings should be separately presented on the operating statement.

- Debt issuance should be an other financing source.
- Use of proceeds for the funding should be reported appropriately based on the type of refunding.
 - Current refunding = expenditures
 - Advance refunding = other financing source

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Other Financing Sources/Uses

Inappropriate expansion of other financing sources and uses category

- *Other financing sources and uses* category was intended to isolate interfund transfers and certain one-time inflows or outflows of current financial resources that might otherwise distort revenue and expenditure trends.

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Other Financing Sources/Uses

- Only items specifically designated by authoritative standards as *other financing sources or uses* may be classified as such:
 - Interfund transfers
 - Issuance of debt or capital leases
 - Debt issuance premiums and discounts
 - Payments to escrow agents for refunded debt funded by new debt
 - Proceeds from sale or disposal of capital assets
 - Certain demand bonds activity

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Governmental Funds: Issuance of Debt

Failure to report other financing source for debt at face value in governmental fund:

- GASB Statement No. 34 directs that the amount of the *other financing source* that governmental funds report upon the issuance of long-term debt be equal to the “face amount” of the debt.
 - Incorrect reporting of an *other financing source* equal to the amount of the proceeds received for debt issued at a discount
 - Report the discount as either an *expenditure* (for an underwriter’s discount) or as a separate *other financing use* (for an original issue discount).

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Governmental Funds: Issuance of Debt

Failure to report an other financing source and related capital outlay expenditure for net present value of new capital lease obligation in governmental funds

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Issuance of Debt Example

Statement of Revenues, Expenditure, and Changes in Fund Balances

Expenditures:

Capital outlay – capital leases	\$245,000
Debt service:	
Bond issuance costs	220,000
Underwriter's discount on sale of bonds	185,000

Other Financing Sources and Uses:

Capital lease obligations	\$245,000
Issuance of general obligations bonds	30,000,000
Original issue discount on sale of bonds	(580,000)
Net other financing sources (uses)	<u>\$29,665,000</u>

Proper Presentation

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Governmental Funds: Compensated Absences

Excessive balance for compensated absences in governmental funds

- GASB Interpretation No. 6, paragraph 14, limits the liability reported in a government fund to just the portion due to employees separated from service as of the end of the fiscal period (governments continue to report a fund liability well in excess of this amount).

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Compensated Absences Example

Balance Sheet – Governmental Funds

Liability and Fund Balances:

Liabilities:

Accounts payable

Accrued compensated absences

Due to other funds

Should only be the amount that is due and payable at year end where the payment has become due because of employee separation (termination, resignation, or retirement).

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GASB 54 – Totals Display

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable	\$ 125,000	\$ 108,000	\$ 16,000	—	—	\$ 164,000	\$ 413,000
Restricted	405,000	24,000	—	\$ 206,000	\$ 796,000	214,000	1,645,000
Committed	461,000	—	103,000	—	—	—	564,000
Assigned	230,000	258,000	73,000	306,000	652,000	176,000	1,695,000
Unassigned	525,000	—	—	—	—	—	525,000
Total fund balances	<u>\$1,746,000</u>	<u>\$390,000</u>	<u>\$ 192,000</u>	<u>\$512,000</u>	<u>\$ 1,448,000</u>	<u>\$ 554,000</u>	<u>\$4,842,000</u>

Classification totals displayed on face of statements - details disclosed in the notes

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GASB 54 – Detail Display

	General Fund	Major Special Revenue Funds		Major Debt Service Fund	Major Capital Projects Fund	Other Funds	Total
		Highway Fund	School Aid Fund				
Fund balances:							
Nonspendable:							
Inventory	\$ 125,000	\$ 108,000	\$ 16,000	—	—	—	\$ 249,000
Permanent fund principal	—	—	—	—	—	\$ 164,000	164,000
Restricted for:							
Social services	240,000	—	—	—	—	—	240,000
Parks and recreation	80,000	—	—	—	—	—	80,000
Education	55,000	—	—	—	—	—	55,000
Highways	—	—	—	—	\$ 444,000	—	444,000
Road surface repairs	—	24,000	—	—	—	—	24,000
Debt service reserve	—	—	—	\$ 206,000	—	—	206,000
School construction	—	—	—	—	301,000	—	301,000
Law enforcement	—	—	—	—	—	214,000	214,000
Other capital projects	—	—	—	—	51,000	—	51,000
Other purposes	30,000	—	—	—	—	—	30,000
Committed to:							
Zoning board	16,000	—	—	—	—	—	16,000
Economic stabilization	210,000	—	—	—	—	—	210,000
Homeland security	110,000	—	—	—	—	—	110,000
Education	50,000	—	103,000	—	—	—	153,000
Health and welfare	75,000	—	—	—	—	—	75,000
Assigned to:							
Parks and recreation	50,000	—	—	—	—	—	50,000
Library acquisitions	50,000	—	—	—	—	—	50,000
Highway resurfacing	—	258,000	—	—	—	—	258,000
Debt service	—	—	—	306,000	—	—	306,000
Public pool	—	—	—	—	121,000	—	121,000
City Hall renovation	—	—	—	—	60,000	—	60,000
Other capital projects	50,000	—	—	—	471,000	—	521,000
Other purposes	80,000	—	73,000	—	—	176,000	329,000
Unassigned:							
Unassigned	525,000	—	—	—	—	—	525,000
Total fund balances	<u>\$1,746,000</u>	<u>\$ 390,000</u>	<u>\$ 192,000</u>	<u>\$512,000</u>	<u>\$1,448,000</u>	<u>\$ 554,000</u>	<u>\$4,842,000</u>

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate if sufficient detail is provided in the notes to the financial statements.

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Governmental Funds: Common Issues with GASB 54

- Positive unassigned balance only in the General Fund
- Negative unassigned balances may be presented in other funds if total fund balance is negative (restricted, committed and assigned amounts can never be negative).
- Long-term loans and notes receivable = nonspendable (includes interfund amounts)

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Governmental Funds: Common Issues with GASB 54

- Legal adoption of a budget authorizes a government to spend budgeted revenues, and therefore, does not impose constraints on the use of existing resources. However, if a portion of fund balance is included as a budgetary resource in the subsequent year's budget, it should be classified as assigned.

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Proprietary Funds: Classified Presentations

Inadequate detail for a classified presentation of proprietary funds:

- Not enough to distinguish current assets and liabilities from long-term assets and liabilities in a classified presentation
- Necessary to furnish appropriate totals and labels (e.g., *total current assets*)
 - CAFR reviewers frequently find totals or labels missing from classified presentations.

Inappropriate presentation in terms or order of liquidity

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Proprietary Funds

Example - Classified Statement

See City of Springfield CAFR

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Proprietary Funds: Noncash Activities

Failure to report noncash activities in proprietary fund cash flow statements

- GASB Statement No. 9 mandates that governments provide information about noncash investing, capital, and financing activities (in tabular or narrative form at the end of the cash flow statement).
 - Should report all investing, capital, and financing activities that affect recognized assets or liabilities, but do not result in cash receipts or payments

AGH

Proprietary Funds: Noncash Activities

- Includes such items as any contributions of capital assets that were received for use in operations; capital assets additions resulting from capital leases; or changes in investment fair values
- Would not include the removal of an accounts receivable balance in exchange for the forgiveness of an accounts payable because this is an “operating activity noncash transaction”

AGH

Example - Noncash Activities

Noncash investing, capital, and financing activities

- Capital lease obligations of \$189,500 were incurred when the Utilities Authority entered into leases for three new sanitation trucks. The resulting assets have been capitalized and will be depreciated over their useful lives.

AGH

Example - Noncash Activities

- Bond issue costs of \$78,200 were incurred and deducted from the proceeds of new revenue bonds. Such amount is recorded as an asset and will be amortized over the debt repayment period.
- The utilities authority's investments experienced an increase fair value of \$53,750.

AGH

Fiduciary funds: Pension Fund Investments

Insufficient detail on pension plan investments

- GASB Statement No. 25
 - Plan assets should be subdivided into (a) the major categories of assets held (i.e., cash and cash equivalents, receivables, investments, and assets used in plan operations), and (b) the principal components of the receivables and investment categories.
 - Applies to *any* report in which the pension trust fund is presented

AGH

Fiduciary Funds

Example - Pension Investments

See City of Springfield CAFR

AGH

Fiduciary Funds: On-Behalf Payments

Failure to report and disclose on-behalf benefit payments

- GASB Statement No. 24 has long required government employers to report revenues and related expenditures, and provide certain disclosures in connection with payments of fringe benefits or salaries by legally separate entities on behalf of their employees.
- Required presentation and disclosure is often missing.
- Example: State appropriations that contribute to firefighter and police pension systems.

AGH

Fiduciary Funds: Example Disclosure

On-Behalf Payments

For the year ended June 30, 20XX, the State Legislature appropriated and the State paid \$35,400 and \$47,200, respectively, into the Police and Fire Pension Systems on behalf of City law enforcement and firefighter employees covered under those plans. Such amounts have been reported as contribution revenue and personal services expenditures within the General Fund.

AGH

*Financial Section:
Notes to the Financial Statements*

AGH

Notes to the Financial Statements: Component Units

Description of the criteria used to include component units should be specific, rather than generic.

- Criteria needs to be specific to the component unit, whether it is blended or discretely presented.

AGH

Notes to the Financial Statements: Component Units

Requirements

- Description of component units
- Relationship to primary government
- Criteria for inclusion
- Blending or discrete presentation
- How to obtain separately issued reports

AGH

1.3 Component Units—In evaluating how to define the reporting entity, as discussed above, the County has considered all potential component units. Component units are separate legal entities for which the County is considered to be financially accountable. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board's (GASB) Statement No. 14. These criteria include the following:

- The primary government holds the corporate powers of the organization.
- The primary government appoints a voting majority of the organization's board.
- The primary government is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the primary government.
- There is fiscal dependency on the primary government by the organization.

GASB Statement No. 39 is an amendment to Statement 14 and provides additional guidance to determine whether certain legally separate organizations, for which the County is not financially accountable, should be reported as component units based upon the nature and significance of their relationship with the County. The organization is reported as a component unit if all three of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

There were no potential component units which met all of the criteria outlined in Statement 39; however, there were four entities that qualified as "blended component units" under Statement 14.

Blended Component Units—All of the County's component units are reported as "blended component units" and are as follows:

- Salt Lake County Special Service District #1 (the Sanitation Fund)

- Salt Lake County Municipal Building Authority
- Salt Lake County Redevelopment Agency
- Salt Lake Valley Fire Service Area

Blending means that component unit balances and transactions are combined with balances and transactions of the County. Although legally separate from the County, the above component units are blended because they are either governed by boards comprised of the County Council or because they provide services or some other form of benefit exclusively, or almost exclusively, to the County. The County retains fiscal responsibility for these entities.

AGH

Notes to the Financial Statements: Investments

Relevant investment policies for various applicable risks should be disclosed consistently

- Credit risk
- Custodial credit risk
- Concentration of credit risk
- Interest rate risk
- Foreign currency risk

NOTE: Needs to be an adopted policy, not a description of practice, **AND** if no such policy, disclose that fact

AGH

Notes to the Financial Statements: Investments

Credit risk

- Ratings for debt securities
 - Whether held directly or indirectly
 - Not applicable to securities of U.S. government or securities explicitly guaranteed by U.S. government

AGH

Credit Risk Example

2.3.2 Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County follows the Utah Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The County's rated debt investments as of December 31, 2006 were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

<u>Debt Securities</u>	<u>Carrying Amount and Fair Value</u>	<u>Quality Rating</u>
U.S. Agencies	\$ 694,202	AAA
Money Market Mutual Funds	5,450,676	AAA
Guaranteed Investment Contracts	537,691	AAA
Qualifying repurchase agreements	6,798,836	Not rated

AGH

Notes to the Financial Statements: Investments

Concentration of credit risk

- Five percent or more in securities of single issuer
- Underlying investments rather than investment company manager or pool sponsor
- Not applicable to securities of U.S. government or securities explicitly guaranteed by U.S. government

AGH

Notes to the Financial Statements: Investments

Interest rate risk

- Disclose in the manner most consistent with how risk is actually managed
- Disclose whether direct or indirect

AGH

Interest Rate Risk Example

Investment Type	Carrying Amount and Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
<u>Debt Securities</u>					
U.S. Treasury Notes	\$ 14,125,125	\$ 14,125,125	\$ -	\$ -	\$ -
U.S. Agencies	694,202	132,084	529,159	32,959	-
Money Market Mutual Funds	5,450,676	5,450,676	-	-	-
Guaranteed Investment Contracts	537,691	-	-	-	537,691
Qualifying repurchase agreements	6,798,836	6,798,836	-	-	-
	<u>27,606,530</u>	<u>\$ 26,506,721</u>	<u>\$ 529,159</u>	<u>\$ 32,959</u>	<u>\$ 537,691</u>

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Notes to the Financial Statements Investments

Investment policies

- Policies indicative of risk tolerance
 - Any formally adopted position
 - If a government imposes narrower restrictions on itself, disclose
 - Level of detail
 - Policies directly relevant to disclosure items
 - Absence of policy relevant to a disclosure item

AGH

Policy Example: Interest Rate Risk

The County's policy for managing interest rate risk is to comply with the Utah Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper and bankers' acceptances to 270 days or less and to 365 days or less for fixed rate negotiable deposits, and fixed rate corporate obligations. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

AGH

GASB Statement 50 (pensions)

New disclosures required by GASB Statement No. 50 should be complete.

- Current year's schedule of funding progress should be in the notes.
- Reference should be made to multi-year information in RSI.
- For plans, actuarial assumptions should be in the notes.

AGH

Schedule of Funding Progress: Current Year in Notes

5. Schedule of Funding Progress

The information presented below is based on the annual actuarial valuations as of January 1 of each year.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ (Surplus) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2010	\$ 6,914,425	\$ 9,625,154	\$ (2,710,729)	71.8%	\$ 6,184,000	-43.8%

The required schedule of funding progress immediately following notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect long-term perspective. Calculations are based on the substantive plan in effect as of January 1, 2010. In prior years, the calculations were based on a plan in effect as of May 1.

AGH

Actuarial Assumptions in Notes – Current Year in Notes

The information presented in the supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Closed Level Dollar Amount
Amortization period	Remaining amortization period varies for the base, with a net effective amortization period of 11 years
Asset valuation method	Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	3.00%
Includes inflation at	0%
Merit increases at	.50%

AGH

Other Post-Employment Benefits

OPEB contributions must be properly determined in the note disclosures.

- Contributions include:
 - Payments of benefits directly to or on behalf of a retiree or beneficiary
 - Premium payments to an insurer
 - Assets transferred to a trust, or equivalent arrangement

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Notes: Restricted vs. Unrestricted Policy

- Policy regarding whether to first apply restricted or unrestricted resources when an expense / expenditure is incurred for purposes for which both are available
- Order of use with regard to restricted, committed, assigned, and unassigned (new requirement from GASB 54)

AGH

Note: Debt Disclosures

- Short-term debt disclosure often missing. Includes presentation of changes, similar to long-term debt
 - Should include description of purpose of the short-term debt

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Note: Debt Disclosures

- Disclosure of funds / resources that will be used to liquidate: Compensated absences, OPEB, claims payable, landfill, pollution or other long-term liabilities shown in the LT liabilities table
- Refundings: debt service savings and economic gain / loss often missing

AGH

Notes: Recently Added Requirements

GASB 54:

- Purpose of each major special revenue fund – identifying which revenues and other sources are reported in each fund
- Significant encumbrances by major funds and aggregate nonmajor funds
- Detail of fund balance classifications displayed in the aggregate on the face of the statements
- Information on stabilization arrangement (if meets criteria)
- Information on minimum fund balance policy

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*Financial Section:
Required Supplementary
Information*

AGH

Required Supplementary Information

5 types of RSI for state and local governments:

- MD&A
- Budgetary comparisons
- Trend data on infrastructure condition (modified approach)
- Trend data on the funding of pension and other post-employment benefits
- Claims development for public-entity risk pools

AGH

RSI: Budgetary Comparisons

NOTE: GAAP specifically permits the budgetary comparison(s) to be included as part of the basic financial statements for governmental funds rather than presented as RSI.

May only include general fund and major special revenue fund budgetary comparisons in RSI

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RSI: Budgetary Comparisons

May not include other governmental fund types or non-major special revenue funds

- In a CAFR, these are other supplementary information.

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RSI: Budgetary Comparisons

Budgetary disclosures must be presented in the appropriate location.

- If budgetary comparisons are RSI, the disclosures should be presented as notes to the RSI.
- However, any significant violation of finance-related legal and contractual provisions must always be included within the notes to the financial statements.

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RSI: Benefit Plans

Funding progress should be complete when a separate single-employer or agent multiple-employer post-employment benefit plan report is not issued.

- Employer reporting for the pension trust fund must include six years of funding progress information.

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*Financial Section:
Other
Supplementary Information*

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Other Supplementary Information

Necessary budgetary comparisons must be presented for non-major special revenue funds, debt service funds, capital projects funds, and permanent funds.

- Pre-GASB 34 rule still applies. CAFR must have a comparison for any:
 - General fund
 - Appropriated/legally adopted
 - Annual/biennial operating budget

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Other Supplementary Information

Required detail for the budgetary comparisons

- Must be at the legal level of budgetary control for comparisons only shown in OSI (non-major special revenue funds, debt service funds, capital projects funds, and permanent funds)
- General fund and major special revenue funds need schedules in OSI if comparisons mandated for the basic financial statements do not have a detail at the legal level of control.

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Statistical Section

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Common Deficiencies

Failure to explain anomalies

- GASB 44 requires explanations of atypical trends and data that the users of the financial report would not otherwise understand.
- Trend data clearly shows a significant change between years, but the government has failed to offer an explanation of why the change occurred.

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Common Deficiencies

Calculation of debt service as a percentage of noncapital expenditures for governmental funds

- Debt service =
- Noncapital expenditures =

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Common Deficiencies

Incomplete information presented for largest own-source revenue (i.e., property tax, sales tax)

- Revenue base
- Revenue rates
- Principal revenue payers
- Property tax levies & collections

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Common Deficiencies

Two different per-capita debt ratios are required

- Total outstanding debt
- Total general bonded debt

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Common Deficiencies

Debt capacity schedules presenting pledged revenue coverage

- Ensure that all debt with pledged revenues are included:
 - STAR bonds
 - TDD bonds
 - Water / sewer revenue bonds
 - TIF bonds
 - Special assessment bonds
 - Transient guest tax-supported bonds
 - Lease revenue bonds (public building commissions)

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General Matters

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Basic Inconsistencies

- Ending balances on change statements do not agree to balance sheet / statement of net assets.
- Totals from combining schedules do not agree to the combined amount on the basic financial statements.
- Amounts in the MD&A tables and condensed schedules do not agree to the basic financial statements or notes.

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Basic Inconsistencies

- Amounts that can be reconciled within the financial statements and / or between the statements and notes do not reconcile.
- Amounts in the statistical section or other supplementary information do not agree or cannot be reconciled with the financial statements and schedules.
- Printing / conversion to PDF problems

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Resources

www.gfoa.org: Certificate of Achievement program checklists

www.gasb.org: GASB Comprehensive Implementation Guide

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