

# Common Financial Reporting Deficiencies

Krisztina M. Dommer  
Audit Supervisor, Sikich LLP  
[KDommer@sikich.com](mailto:KDommer@sikich.com)





Accounting & Tax Services

**Krisztina Dommer**

*Audit Supervisor*

Krisztina is an audit supervisor at Sikich LLP. Prior to joining Sikich, she worked for the national Government Finance Officers Association (GFOA) as a senior program manager. At GFOA, Krisztina managed the administration of the Certificate of Achievement Program for Excellence in Financial Reporting and the Award Program for Small Government Cash Basis Reports. She performed reviews and generated suggestions for improvement on the Small Government Annual Financial Reports, Comprehensive Annual Financial Reports and Popular Annual Financial Reports of state and local governments in the United States. Krisztina is currently a member of the GFOA's Special Review Committee continuing to perform reviews of Comprehensive Annual Financial Reports.

Krisztina has made considerable contributions to the appendices in the 2012 version of the Governmental Accounting, Auditing, and Financial Reporting (GAAFR) publication. She provided technical support to GFOA's thousands of members and has spoken at national training seminars and conferences on governmental accounting and financial reporting.

**Education**

Bachelor of Commerce Degree in Accounting, DePaul University

Graduate of Advanced Government Finance Institute, University of Wisconsin at Madison



# Overview

## MD&A

Analysis

## Government-wide Financial Statements

Deferred inflows/outflows  
Terminology

## Governmental Funds

Deferred inflows/outflows  
Fund types  
Major funds  
Fund balance

## SSAP

Component units  
Fund balance  
Reference to private sector  
guidance  
Fund descriptions

## Notes

Unassigned fund balance  
Stabilization arrangements  
Separate budget report  
reference  
Reimbursements

## Statistical Section

Net general obligation debt  
Ratio calculation

## GASB-S67

Implementation issues



# MD&A Analysis

- ▶ Less is NOT more!
- ▶ Analysis for significant changes to be found in:
  1. Government-wide financial statements
  2. Major governmental funds (at least)
  3. General Fund's budget
    - \* Original vs. Final
    - \* Final vs. Actual
- ▶ Quantifying the changes even your auditor can do. As a preparer, you should provide the *reasons* for changes.
- ▶ Opinions and judgments only belong in the letter of transmittal. MD&A should focus on facts.



# MD&A Analysis Continued

- ▶ Don't wait until the end of the year. Keep a list of significant events throughout.
- ▶ Use the adopted budget and board minutes as a guide to find significant changes that may have had an effect on financial position during the year.
- ▶ Involve other departments and management as part of the process.
- ▶ Utilize the line-item detail found in the general ledger.



# Government-wide Financial Statements

- ▶ It's only a deferred inflow/outflow if the GASB says so.
- ▶ GASB-65
  - Refundings – the difference between the reacquisition price and the net carrying value of the old debt
  - When funds are collected for imposed nonexchange transactions before the period for which they are intended to finance or be used (e.g., property taxes).
  - When grant funds are received before the period for which they should be used.
  - Sales of future revenues and intra-entity transfers of future revenues.
  - Sale-leaseback transactions.



# Government-wide Financial Statements Continued

- ▶ Avoid deferred inflows/outflows mishaps
  - Report only items that are identified by the GASB standards as deferred items.
  - If more than one refunding gain or loss is present in any one fiscal year, refrain from netting them.
  - “Unavailable” revenues belong only in the governmental funds (not the government-wide).
  - Debt issuance costs (unless related to insurance) should be expensed in the period incurred (not amortized).



# Government-wide Financial Statements Continued

- ▶ Net investment in capital assets
  - It's only capital related debt if it's related to your capital assets.
  - Unspent proceeds should not be considered "debt" for the calculation.

capital assets  
(capital-related debt)  
proceeds  
(discounts)  
net investment in capital assets





# Governmental Fund Financial Statements

- ▶ Deferred inflows / outflows – Déjà vu
  - If it's a liability it's *not* a deferred inflow.
  - Inventory and prepaid items still end up in fund balance (nonspendable).
  - Loans receivable should not be deferred.
  - Special assessments
    - Unearned revenue (liability) until project completed.



# Governmental Fund Financial Statements Continued

## ▶ Deferred inflows/outflows – Grants

Category	Time-based eligibility	Expenditure-driven eligibility criteria	Purpose restrictions
Revenue	Yes	Yes	Affect only the categorization of net position/fund balance
Deferred Revenue	No	Yes	Affect only the categorization of net position/fund balance
Unearned Revenue	Yes or No	No	Affect only the categorization of net position/fund balance

# Governmental Fund Financial Statements Continued

- ▶ GASB Statement Number 54: It's not over until it's over
  - Fund balances should be presented by purpose rather than by function
    - Net position is presented by function – fund balance is different.

Fund Balances, Governmental Funds – Footnote Disclosures	
Specific Purpose	Function
Animal services operations	General Government
Capital projects, health clinics	Health Services
Mental health operations	Social Services
Capital projects, information technology	Public Safety & Justice
Community support programs	Community Services
Library Operations	Library
Road, bridge & bike path improvements	Roads & Bridges



# Governmental Fund Financial Statements Continued

- ▶ Fund balance continued
  - Assigned fund balance may not be negative.
  - No positive assigned fund balance possible with a deficit in unassigned fund balance.
  - Only the General Fund may report a positive unassigned fund balance.



# Governmental Fund Financial Statements Continued

- ▶ Fund type categorization
  - Special revenue funds versus capital projects funds
    - Maintenance versus trend-buster



# Governmental Fund Financial Statements Continued

- ▶ Budget presentations in the CAFR

Present at the legal level of budgetary control (fund, function, department, object, line-item)	
General Fund & Major Special Revenue Funds	Nonmajor special revenue funds, debt service funds, capital projects funds, and permanent funds
Basic Financial Statements OR Required Supplementary Information	Supplementary Information



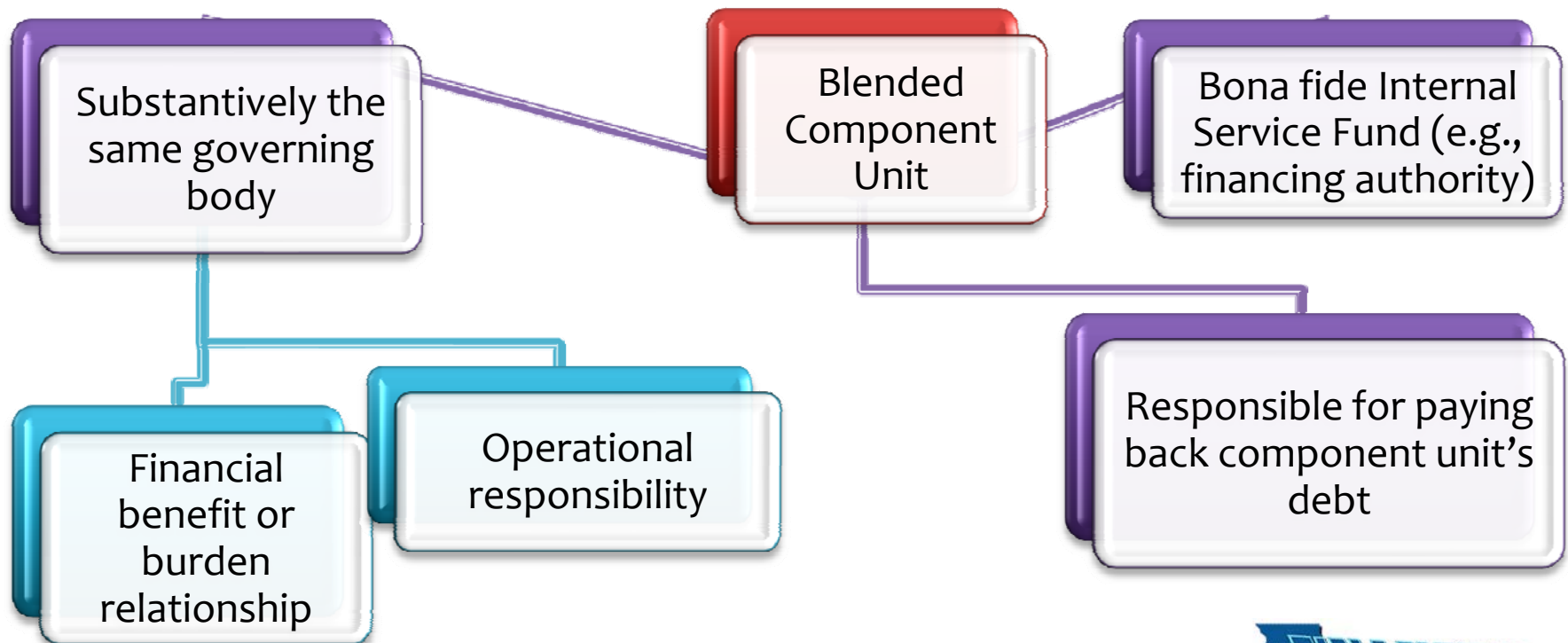
# Governmental Fund Financial Statements Continued

- ▶ Check those funds time and time again.
  - Last minute adjustments could result in different major funds than the initial materiality analysis.



# Note Disclosures

- ▶ New requirements of GASB Statement Number 61
  - Make clear and complete disclosures





# Note Disclosures Continued

- ▶ Major special revenue funds
  - Purpose
  - Revenue stream
  
- ▶ Interfund transfers vs. Reimbursements
  
- ▶ Pension plans that issue a separate report
  - Make a clear reference



# Note Disclosures Continued

- ▶ GASB Statement Number 67
  - No early implementers of GASB-S68, so GASB-S27 disclosures still required in the notes.
  - If GASB-S67 is implemented by a plan that issues a separate report, make a clear reference to this.
  - If it's not applicable because the plan is not administered through a trust or equivalent arrangement, make this clear.
  - Nowhere to hide... GASB Statement 68 will be applicable to fiscal years beginning after June 15, 2014
    - First fiscal year ends to implement will be June 30, 2015



# Statistical Section

- ▶ “Net” general obligation debt
  - Net of discounts
  - Net of premiums
  - Net of deferred items resulting from refunding transactions



# Statistical Section Continued

- ▶ Ratio of debt service expenditures to total expenditures:

$$\frac{\text{Principal} + \text{Interest}}{\text{Total Expenditures} - \text{Capital Outlay Expenditures}}$$

# Statistical Section Continued

- ▶ How did you collect over 100% of those tax revenues?
  - Delinquent taxes should be reported by levy year if at all possible.
  - If unavoidable, include a note on the property tax statistical table explaining why tax collections exceed 100%.



# Overview

- ▶ Terminology to avoid
  - ~~Net assets~~ = Net position
  - ~~Net assets, invested in capital assets, net of related debt~~ = Net investment in capital assets
  - ~~Designated~~ fund balance
  - ~~Fixed assets~~ = Capital assets
  - ~~Operating~~ transfers
  - ~~General purpose financial statements~~ = Basic financial statements

# Overview Continued

- ▶ Articulation



# Questions?

Krisztina M. Dommer  
Supervisor

**Sikich LLP**

1415 W. Diehl Road,  
Suite 400

Naperville, IL 60563

T: (630)566-8530

[KDommer@sikich.com](mailto:KDommer@sikich.com)

Thank you

