

CAFR Conundrums

Common Reporting Deficiencies and How to Avoid Them

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Learning Objectives

- Discuss common errors found in governmental financial statements
- Learn how to identify and correct reporting errors when preparing and reviewing financial statements

Tools to Avoid Deficiencies

- Utilize the GFOA checklist when reviewing your draft report
 - https://gfoaorg.cdn.prismic.io/gfoaorg/b8e68299-1598-4a64-adfc-f4ee1e2c5831_GFOAGeneralPurposeChecklist.pdf
- Ensure statements trace to your general ledger
 - If you prepare entity-wide adjustments, consider using a “GASB 34” fund
- Make corrections for deficiencies identified in prior year
- Discuss questions and changes with your auditors
 - Impact of new GASBs, unique transactions/activities, etc.

Formatting

- Statements/schedules longer than single pair of facing pages include “continued” and “concluded”
- Do not report cents
- Clear indication of rounding to nearest thousand or million
- Current terminology
 - Net position vs. net assets
 - Net pension/OPEB liability vs. total pension/OPEB liability vs. net pension/OPEB obligation
 - Net investment in capital asset vs. invested in capital assets, net of related debt

Cover, Title Page, Table of Contents

- Cover
 - “Fiscal year ended XXX”
 - Include state location
- Title Page
 - Individual/department responsible for preparation
- Table of Contents
 - Clear segregation of basic sections
 - Distinguish between basic FS, RSI, and other contents
 - All schedules identified and page numbers consistent

Introductory Section

- List of Principal Officials
 - Elected, appointed, or both
 - In place during year, at date of issuance, or combination of both
- Organizational Chart
- Certificate of Achievement for Excellence in Financial Reporting
 - Must be included if received in prior year

Letter of Transmittal

- Date on or after date of independent auditors' report
- Reference “unmodified” vs. “unqualified” opinion
- Direct readers to the Management's Discussion & Analysis
 - Avoid repeating information included in MD&A
- Focus on economic condition

Independent Auditors' Report

- Only component of the CAFR that is the auditor's responsibility
 - All other components are the government's information
- GAAS vs. GAGAS
 - Single audit – GAGAS required
 - GATA – State and federal expenditures > \$500K – GAGAS

Management's Discussion & Analysis

- Amounts reported in MD&A should agree with the amounts reported elsewhere within the CAFR
- Discussion of overall financial position should include all applicable financial statement elements (e.g., assets, deferred outflows of resources, liabilities and deferred inflows of resources)
- Discussion should include an analysis of the **underlying reasons** for the significant changes not just the numerical differences

Management's Discussion & Analysis

- Include the line items “total assets” and “total liabilities” and include deferred outflows and deferred inflows below these totals
 - Optional totals for total assets and deferred outflows and total liabilities and deferred inflows
- Discussion of the general and major governmental funds original and final budget variances and final budget and actual variances
- Analysis of balances and transactions of **individual major funds**

Polling Question #1

Reporting Entity

- Fund presentation – verify that fund classification meets fund definitions/requirements
- Component unit considerations
 - Public library presentation – fund vs. discretely presented component unit vs. separate entity
 - Presentation of multiple **major** discretely presented component units (DPCU)
 - Separate columns in government-wide financial statements
 - Combining statements included with basic financial statements
 - Condensed financial statements included within notes to financial statements

Government-Wide Financial Statements

- Statement of Net Position
 - Government-wide balance sheet
- Statement of Activities
 - Government-wide income statement

Statement of Net Position

- Interfunds between Governmental Activities and Business-Type Activities should be presented as “internal balance”
- Net pension/OPEB liability should be presented under noncurrent liabilities due in more than one year
- Deferred outflows/inflows of resources related to pensions/OPEB
 - OPEB and pension amounts **must** be reported separately; amounts for multiple pension plans **may** be reported separately or combined
 - Amounts arising from differences between projected and actual pension/OPEB plan investment earnings in different measurement periods should be aggregated and reported as a net amount

Statement of Net Position

- Net position classifications
 - Restricted net position
 - Should equal fund balance restricted classifications adjusted for impact of government-wide adjustments
 - Net investment in capital assets (NICA) calculation
 - Debt issued for capital purposes should not be included until proceeds have been used to acquire capital assets
 - Liability related to unspent portion of capital-related debt should be included in same component of net position as the unspent proceeds
 - Premiums, discounts, and deferred amounts on refunding associated with capital-related debt should be included
 - Debt used to refund capital-related debt should be considered capital-related

Statement of Activities

- Intergovernmental revenue
 - Grants and contributions with a restricted purpose should be reported as program revenue
 - Unrestricted intergovernmental revenues (sales tax, income tax, etc.) should be reported as general revenues and clearly identified as unrestricted
- Gain/loss on sale of capital assets
 - Gain – general revenue
 - Loss – direct expense
- Transfers between Governmental Activities and Business-Type Activities should net

Reconciliation from Fund Financial Statements to Entity-Wide Financial Statements

- Reconciling Statements
 - Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Internal service fund impacts reported separately from other reconciling amounts
- If amounts netted in reconciliation, detail required to be presented in the notes to the financial statements

Fund Financial Statements

- Financial statement articulation
 - Governmental fund balance sheet
 - Fund balance on income statement
 - Proprietary fund statement of net position
 - Statement of changes in net position
 - Proprietary fund statement of net position
 - Statement of cash flows

Fund Financial Statements

Major fund calculation/reporting

- General fund is always major
- Total Assets + Deferred Outflows, Liabilities + Deferred Inflows, Revenues or Expenses
 - > 10% of total for that category
 - Governmental funds
 - Enterprise funds
 - >5% of total for both categories
 - Same element
- Can choose to classify more as major

Governmental Fund Balance Sheet

- Property tax receivable recognition
 - Receivable when the levy attaches as lien on property
 - January 1 of the levy year in Illinois
 - Must be levied to be measurable
 - Revenue recognized in the year intended to finance
 - Must be collected within 60 days after year
- Unearned revenue versus deferred revenue
 - Liability versus a deferred inflow of resources
- Classification of debt payable as a fund liability (park districts)
 - Maturity < 1 year of date of issuance

Governmental Fund Balance Sheet

- Fund balance classification
 - Nonspendable not reported for non-spendable assets that will be converted to spendable assets in funds other than the general fund
 - Advances to other funds
 - Loans receivable
 - Restricted fund balance for unspent restricted tax levies
 - Negative restricted, committed or assigned fund balance not allowed
 - Assigned fund balance can not create an unassigned deficit
 - Assigned fund balance in the general fund use to balance next year's budget
 - Unassigned fund balance reported only in the general fund
 - Unless a deficit in other governmental funds

Governmental Flow Statement

- Reporting debt issues
 - Face amount versus proceeds
- Reporting flows from the inception of a lease
- Reporting flows from issuance of notes to developers/others
- Reporting refunding transactions
 - Paid from existing resources versus proceeds of new debt issue
 - Paid to escrow agent for current refundings
 - AICPA ASLGU – other financing use
 - GFOA GAAFR – expenditure
 - AICPA ASLGU takes precedent at Category B GAAP.

Proprietary Fund Position Statement

- Balance Sheet or Statement of Net Position
 - Classified presentation required for a balance sheet
 - Classified or order of liquidity presentation for statement of net position
 - Where to put the double underscore? =====
- Restricted assets and liabilities payable from restricted assets
- Components of net position
 - NICA
 - Restricted
 - Does not apply to unspent bond proceeds
 - Unrestricted

Proprietary Fund Flow Statement

- Classification of operating versus nonoperating
- Classification of grant revenue
 - Nonoperating revenue unless restricted for capital purposes
 - Capital grants and contributions if restricted for capital purposes
- Reporting transfers between funds
- Reporting capital grants and contributions
- Reporting capital asset transfers with governmental activities

Proprietary Fund Statement of Cash Flows

- Reporting only cash inflows and outflows
- Classification of cash flows for operating activities
 - Separate cash received from (paid to) other funds
 - Default category for other revenue
- Classification of grants received
 - Nonoperating revenue = noncapital financing activities
 - Capital grants and contributions = capital financing activities
- Change in accounts payable
 - Change in non-capital AP impacts cash paid to suppliers
 - Change in capital AP impacts cash paid for capital assets
- Reconciliation to position statement
- Reporting non-cash capital, financing and investing activity

Fiduciary Funds

- Equity is net position, not fund balance
- Labeling pension and OPEB net position
 - GASB S-67 and GASB S-73
- Reporting repayment of debt not obligated in any manner for
 - Custodial fund versus debt service fund
- Reporting investment expenses
 - Reduction of investment income
- Labeling under GASB S-84

Polling Question #2

Summary of Significant Accounting Policies

- Reporting entity disclosures
 - Missing Definition of the reporting entity
 - Disclosing Foundations or Friends not included due to not significant
 - Libraries and park districts
 - GASB Statement No. 39
 - Disclosing pension/OPEB funds as fiduciary component units

Summary of Significant Accounting Policies

- Revenue recognition policies
- MFBA for custodial funds
- Definition of generic funds
- Major funds
- Funds voluntarily classified as major

Summary of Significant Accounting Policies

- Investments
 - Defining what is reported at cost/amortized cost versus fair value
- Capital assets
 - Asset classes /useful lives do not agree to detailed capital asset note
 - Valuing contributed assets
 - Acquisition value
- Fund balance targets
- Budgetary disclosures
 - Notes to financial statements versus notes to required supplementary information

Cash and Investment Note Disclosures

- Disclosure segmentation
 - Separate presentation for primary government, pension funds, and discretely presented component units
- Deposit and investment policies
 - General policies and policies associated with GASB 40 risks should be disclosed
 - If no formal policy exists, fact should be disclosed

Cash and Investment Note Disclosures

- GASB 40 risks – disclosure exposure to each type of risk
 - Custodial credit risk – deposits
 - Custodial credit risk – investments
 - Interest rate risk
 - Credit risk
 - Concentration of credit risk
 - Foreign currency risk – uncommon
 - Investments highly sensitive to interest rate changes – uncommon
- Amounts should agree to financial statements and other cash and investment disclosures

Cash and Investment Note Disclosures

- Fair value measurement (GASB 72)
 - Valuation techniques to be described for all fair value hierarchy levels
 - Identify investments calculated using net asset value (NAV) per share (for example, Illinois Funds)
- Disclose whether any external investment pools are not registered with the SEC and the nature of any regulatory oversight

Capital Asset Note Disclosures

- Construction in progress activity (additions and deletions) should be disclosed gross, not net
- Transfers of capital assets between GA and BTA should be disclosed in separate “transfers” column
- Enterprise depreciation expense should trace to the basic financial statements

Long-Term Debt Note Disclosures

- Separately identify each major class of long-term liability
 - Different types of debt should be separately identified – bonds vs. notes vs. loans
- Due within one year amounts must be identified for each type of long-term liability and trace to basic financial statements
- Identify funds used to liquidate long-term liabilities other than debt
- Changes in other long-term liabilities (compensated absences, net pension liability, total/net OPEB liability, claims payable, etc.) should report separate increase and decreases

Long-Term Debt Note Disclosures

- Disclosures for issuance of refunding debt include
 - Refunding bonds principal issued
 - Principal being refunded
 - Interest rate on refunding and refunded bonds
 - Cash flow requirements on refunding and refunded bonds
 - Economic gain/loss amount

Long-Term Debt Note Disclosures

- Short-term debt activity
 - Even if no outstanding short-term debt at year-end, disclose existence and provide schedule of changes in short-term debt
 - “Short-term” debt with a maturity date greater than one year is a long-term liability reported on the full accrual statements

Long-Term Debt Note Disclosures

- GASB 88 disclosures
 - Identify and segregate direct placement debt and direct borrowings
 - Unused lines of credit
 - Assets pledged as collateral for debt
 - Terms related to significant events with finance-related consequences (such as accelerated payments) resulting from events of default, termination events, and subjective acceleration clauses

Long-Term Debt Note Disclosures

- Tax rebate vs. note payable
 - Rebate agreement = arrangement in which a developer receives a rebate based upon an actual event or scope of activity occurring
 - These arrangements are considered tax abatements in accordance with GASB 77
 - Ex.: A business receives an annual rebate from the municipality equal to 50% of sales tax paid by the business up to a maximum of \$100K for 5 years
 - Note payable = arrangement in which payments to the developer are guaranteed
 - Ex.: Municipality agrees to pay a developer \$100K over 5 years as part of a development agreement

Polling Question #3

Pension Note Disclosures

- Disclosure of type of plan
- Availability of separately issued pension plan report
 - IMRF is for plan as a whole, not by employer
- Disclosure by measurement period or employer fiscal year end, if different
 - Pension liability and related disclosures (e.g., assumptions) as of measurement date
 - Employer contributions based on employers most recent fiscal year

Pension Note Disclosures

- Summary of total pension expense, total net pension liability, total deferred outflows and total deferred inflows if the employer participates in more than one defined benefit plan
- Calculation of pension expense
 - Adjust for employer contributions made during the year
- Timing of the actuarial valuation calculating the net pension liability
 - Same as pension fund's fiscal year end
 - No more than 1 year > employer balance sheet date
- Long-term real rate of return not net of inflation/costs
- Discount rate test

OPEB Note Disclosures

- Disclosure of type of plan
- Disclosure of types of benefits provided
 - Implicit
 - Explicit
 - Public Safety Employee Benefit Act (PSEBA)
- Cost of benefits to include
- Alternative measurement method
 - No deferred outflows or deferred inflows
- Allocation of PSEBA expense/liability
 - Governmental activities
- Utilization rate
 - Projected versus current

Individual Fund Note Disclosures

- Interfund balances and transfers
 - Ensure that the purpose of interfund activity is disclosed
- Risk Financing
 - Disclosures dictated by nature of the government's risk financing (insurance) activities
 - Self-insurance – Include table of claims liability for two most recent fiscal years, distinguishing 1) beginning of year claims liability, 2) claims incurred during year, 3) Changes in estimate for claims prior years, 4) payments on claims, and 5) claims liability at end of year

Individual Fund Note Disclosures

- Fund balance / net position
 - If detail/purpose of fund balance classifications not included in basic financial statements, disclosure required
 - Net investment in capital asset calculation should be included if not readily determinable from the basic financial statements
- Tax abatements
 - Abatements that shift instead of reduce the tax burden should be disclosed if significant

Individual Fund Note Disclosures

- Other disclosures
 - Fund deficits
 - Fund expenditures over budget
 - Going concern
 - Prior-period adjustments – Impact on each opinion unit (financial statement column) must be disclosed
 - Subsequent events

Budget Versus Actual

- Legal compliance
 - Appropriation
 - Budget
 - Legal budget (budget act)
 - Working or management budget (all else)
 - Combined appropriation and budget (park districts, special districts)
- Must report the legal appropriation or legal budget
 - Can include additional column for working/management budget
- General fund and major special revenue fund
- Original and final amended budget
- Actual on budgetary basis

Budget Versus Actual

- Labeling variances
- Prior year actual can not be presented in RSI
- Disclosures
 - Funds budgeted/not budgeted
 - Legal level of budgetary control
 - Expenditures in excess of budget/appropriation
 - Governmental funds, not all funds

Pension/OPEB Required Supplementary Information (RSI)

- Not all required years presented for a pension fund
 - 1 more year than employer disclosures unless the pension fund issues a separate report
- Annual money weighted rate or return
 - Not calculated correctly
- Schedule of employer contributions
 - Employers fiscal year, not IMRF fiscal year (if different)
 - 10 years of date required now, no prospective reporting of this schedule
 - Actuarial Determined Contribution
 - Based on actual funding methodology used, not a wished for ADC

Polling Question #4

Combining and Individual Fund Financial Statements

- Combining statements are required when the following columns in the basic financial statements aggregate data from more than one fund:
 - Nonmajor governmental funds
 - Nonmajor enterprise funds
 - Internal service funds
 - Private-purpose trust funds
 - Pension (and other employee benefit) trust funds
 - Investment trust funds
 - Agency funds / custodial funds
- Combining statement totals should agree to basic financial statements

Combining and Individual Fund Financial Statements

- Discretely presented component units
 - Combining statements required when not reported as 1) separate column in the government-wide financial statements or 2) separate column in a component unit combining statement included in the basic financial statements
 - If separate report not issued, all fund information normally required by GAAP should be provided

Combining and Individual Fund Financial Statements

- Individual fund statements
 - Located in subsection to which they relate, behind the combining statements, and sequenced in the same order as the related columns in the combining financial statements
 - Individual fund statements should provide additional information not already contained in combining financial statements – i.e. budgetary comparisons
 - Individual fund statements not required if fund does not have an approved budget/appropriation
 - Budgetary comparisons should be reported at the legal level of budgetary control (the level at which management cannot overspend/transfer the budget without governing body approval)

Combining and Individual Fund Financial Statements

- If not in basic FS or RSI, budgetary comparison schedules for the general fund and major special revenue funds reported at the legal level of budgetary control are required

Statistical Section

- Agree with financial statements
- Discussing variances
- Ratio of debt service as a percentage of noncapital expenditures
- Disclosing revenue and debt raising caps/limits
- Not disclosing sources of data
- Debt tables not including all debt (as defined by GASB S-88)
- Reporting net debt (net of premiums/discounts)

Questions?

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