



GOVERNMENTAL ACCOUNTING IMMERSION SERIES 3

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The Governmental Environment

- Key environmental characteristics
 - Two characteristics of the governmental environment have had an important impact on the development of public-sector accounting and financial reporting practice:
 - 1) Not all of the activities of state and local governments have the same financial objectives (operational accountability).
 - 2) Governments have a special responsibility to demonstrate that they have complied with restrictions on the use of resources (fiscal accountability).

The Governmental Environment

- Different financial objectives for different activities
 - Private sector enterprises set out to make a profit by providing goods or services to customers
 - ◇ Sometimes services offered by governments function in much the same way as private-sector businesses so they are described as business-type activities (i.e. government operated golf courses).
 - ◇ Sometimes services offered by governments do not function like private-sector businesses so they are described as government-type activities (i.e. public safety.)

The Governmental Environment

- Fiscal accountability
 - Budgets in the public sector function as more than just a financial plan. They are the concrete manifestation of a legislative body's ability to set public policy.
 - The appropriated budget of a state or local government enjoys the force of law and violations are subject to legal sanctions



The Governmental Environment

- Fund Accounting
 - In the private sector generally even the most complex businesses are presented as a single, unitary entity for the purposes of financial reporting.
 - Governments, however, are required to use fund reporting to accompany their government wide financial statements.

The Governmental Environment

- Special measurement focus and basis of accounting for government entities
 - Government's use two different measurement focus.
 - ◇ Business-type activities use an economic resources measurement focus.
 - ◇ Government-type activities use a financial resources measurement focus.

Financial Reporting Model

- Fund accounting was specifically developed to provide information on fiscal accountability to users of the financial statements.
- Government-wide financials – The GASB determined that government-wide financial statements are necessary to provide information on operational accountability.

Governmental Funds (Government-type activities)

- Governmental funds include:
 - General fund
 - Special revenue funds
 - Capital project funds
 - Debt service funds
 - Permanent funds

Governmental Funds

- General fund – is the chief operating fund of a state or local government. GAAP prescribes that the general fund be used “to account for and report all financial resources not accounted for and reported in another fund.”

Governmental Funds

- Special revenue funds – used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects. Notes should disclose the purpose for each major special revenue fund.

Governmental Funds

- Debt service funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
 - Care should be taken in applying the number of funds principal with regards to debt service funds. Sound financial management dictates that governments should account for each debt issue separately in their accounting systems, but a single debt service fund is often sufficient for external financial reporting purposes.

Governmental Funds

- Capital projects funds – used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Excludes capital projects financed by proprietary funds, trust funds, private organizations, or other governments.

Example – The Board of a fire district decides to set aside funds to purchase a new fire truck. Funds could be considered committed within the capital projects fund.

Governmental Funds

- Permanent – used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

Example – A donation to the University of Colorado for \$1M has a stipulation that only the interest can be spent on programs.

Propriety Funds (business-type activities)

- Proprietary Funds
 - 1) Enterprise funds
 - 2) Internal service funds

Proprietary Funds

- Enterprise funds – may be used to report any activity for which a fee is charged to external users for goods or services (defined as an “exchange” or “exchange like” transaction as discussed in GASB 33). GAAP also requires the use of an enterprise fund where:
 - Debt backed solely by fees and charges
 - Legal requirement to recover costs with fees and charges
 - Pricing policies of the activity establish fees and charges designed to recover costs

Example – A city operates a mass transit system that charges fees to use buses, trains or a light rail

Proprietary Funds

- Internal service – used to allocate the cost of certain shared activities to other funds.
 - The use of an internal service fund is never required and must always be eliminated in government-wide statements.
 - The goal of an internal service fund should be to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. Full cost, for this purpose includes the cost of capital assets used in providing goods or services to customers.

Example – “central store” or “warehouse” fund

Fiduciary Funds

- GAAP defines fiduciary funds as funds that are used “to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government’s own programs.”

Fiduciary Funds

- Fiduciary funds
 - Pension and other employee benefit trust funds
 - Investment trust funds
 - Private purpose trust funds
 - Custodial funds

Example – inmate jail fund at a County

Basis of Accounting

- Basis of accounting determines when the government will recognize transactions in the accounting records and when they will be reported in the financial statements.
 - Governmental funds use the modified accrual basis of accounting.
 - Proprietary funds use the accrual basis of accounting.

Basis of Accounting

- Accrual basis of accounting recognizes transactions when they occur, despite the timing of the related cash flows.
 - Using this basis of accounting, revenues are recognized in the accounting period which they become objectively measurable and the government earns them.
 - Expenses are recognized in the period incurred assuming that they are measurable.

Basis of Accounting

- Modified accrual basis of accounting modifies the accrual basis of accounting to reflect the spending of financial resources.
 - Revenues are recognized when they are **measurable** and **available**.
 - ◇ Measurable means you have some objective way to quantify the revenue.
 - ◇ Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Measurement Focus

- Measurement focus determines what a government measures and reports in its financial statements.
 - Governments use the flow of current financial resources measurement focus.
 - Proprietary funds use the economic resources measurement focus.

Fund Balance Determination and Reporting (GASB 54)

- Enhance The Usefulness Of Fund Balance Information By Providing Clearer Fund Balance Classifications That Can Be More Consistently Applied
- Clarifying The Existing Governmental Fund Type Definitions
- Clarifying the reporting elements and definitions for fund balance

Fund Balance Financial Reporting Level

Pre-GASB 54

Fund Balance:

Reserved

Unreserved, Designated

Unreserved, Undesignated

GASB 54

Fund Balance:

Nonspendable

Restricted

Committed

Assigned

Unassigned

Classifying Fund Balance

Fund Balance Classifications Should Depict The Nature Of The Net Resources That Are Reported In A Governmental Fund.

An Individual Governmental Fund Could Include Nonspendable Resources And Amounts That Are Restricted, Committed, Or Assigned, Or Any Combination Of Those Classifications

Typically, The General Fund Also Would Include An Unassigned Amount

Fund Balance Disclosure

For Committed Fund Balance:

1. The Government's Highest Level Of Decision-Making Authority

And

2. The Formal Action That Is Required To Be Taken To Establish (And Modify Or Rescind) A Fund Balance Commitment

Fund Balance Disclosure

For Assigned Fund Balance:

1. The Body Or Official Authorized To Assign Amounts To A Specific Purpose And
2. The Policy Established By The Governing Body Pursuant To Which That Authorization Is Given

Fund Balance Disclosure

Encumbrances

- Encumbrances Should Not Be Displayed As A Separate Classification Of Fund Balance On The Face Of The Balance Sheet
- For Governments That Use Encumbrance Accounting, Encumbrances Should Be Disclosed In The Notes To The Financial Statements By Major Funds And Nonmajor Funds In The Aggregate In Conjunction With Required Disclosures About Other Significant Commitments

Example of Footnote:

Unencumbered amounts for the operating portion of the budget lapse at year-end.

The Financial Statements – Modified Accrual vs. Full Accrual Challenges

Reconciling Items between Modified and Full Accrual

Reconciling Item	Government funds (modified accrual)	Governmental activities (full accrual)
Capital assets	No	Yes
Capital Expenditures (Outlay)	Yes	No
Outstanding long term liabilities	No	Yes
Accrued interest	No	Yes
Principal payments on debt	No	Yes
Bond issuance	Cash/Revenue	Cash/Long term liability
Depreciation Expense	No	Yes
Proceeds from the sale of an asset	Yes (revenue recorded for full amount of proceeds)	Yes (reduction of asset, gain/loss on sale)

Revenue Recognition for Grants

The “available” criterion applies to reimbursement grants. For expenditure driven grants in governmental funds, revenues are recognized at the time of the expenditure only if the reimbursement will be received within the government’s period of availability.

Government-Wide Statements

- The government-wide statements include:
 - Statement of Net Position.
 - Statement of Activities (cost of services approach).
 - Economic resources measurement focus.
 - Accrual basis of accounting.
 - Governmental activities.
 - Business-type activities.
 - Discretely presented component units.

Component Units

- A separate legal entity, where there is *financial accountability*, which is created when one of the following exists:
 - Fiscal dependence + financial burden/benefit
 - Board appointment + financial burden/benefit
 - Board appointment + ability to impose will
- OR, because it would be misleading to exclude it

Component Units

Step 2: Blended or discretely presented?

- Blended if one of the following exists:
 - Substantively the same governing body + financial burden/benefit
 - Substantively the same governing body + operational responsibility
 - (Almost) exclusive service or benefit to the primary government
 - Total debt repayable (almost) entirely from resources of the primary government
- Otherwise, discretely presented.

Step 3: Presentation options for discretely presented:

- Single column
- Major and nonmajor
- Separate columns

Statement of Net Position

(Previously Statement of Net Assets)

- All assets (including capital assets)
- Deferred Outflows
- All liabilities (including long-term liabilities)
- Deferred inflows
- Net position (rather than fund balances, retained earnings; GASB 34 was called total net assets).
 - Invested in capital assets, net of related debt
 - Restricted
 - Unrestricted
- Choice between classified format or order of liquidity.

Accounting for Long-Term Debt

Recording issuance of bonds in governmental fund

- Governmental fund presentation
- Government wide conversion/presentation

- Recording a refunding bond issue

- Governmental fund presentation
- Government wide conversion/presentation

Accounting for Long-Term Debt

- Review disclosure requirements for refunding issues
- Amortization of premiums, discounts and refunding loss
 - Effective interest method simplified
 - When straight line is allowable

Governmental Fund Bond Issuance

Documents Needed

- Official Statement
- Closing Memorandum
- Bond Resolution

Governmental Fund Bond Issuance

Potential parts to the transaction

– Sources

- ◇ Gross bond proceeds (Other financing source)
- ◇ Premium or discount (Other financing source)
- ◇ Accrued interest (Liability)

– Uses

- ◇ Project fund (Asset)
- ◇ Capitalized interest (Asset)
- ◇ Reserve funds (Asset)
- ◇ Bond issuance costs (Expenditure)

Governmental Fund Bond Issuance

Entries for government-wide statements

- Reclassify proceeds/premium/discount as liabilities
- Amortize premiums/discounts

Governmental Fund Bond Issuance

Amortization – Premium/Discount

- Amortized as interest expense or income over life of debt
- “Interest” method to be used (however, other methods acceptable if results are not materially different)

Governmental Fund Bond Issuance

Amortization – Premium/Discount

- “Interest” method
 - To provide level effective rate on the sum of the debt outstanding and the unamortized premium or discount
 - Simplified interest method on fixed rate bonds is to amortize a pro-rata share of the interest expense

Capital Assets - reminders

Proprietary Funds and Fiduciary Funds

- *Capital assets recorded on the fund level*

Governmental Funds

- Capital purchases recorded as expenditures
 - Referred to as “Capital Outlay”
- Recorded as capital assets after reconciling to government-wide full accrual statements.

Capital Infrastructure Assets

Non-depreciable Assets	Depreciable Assets
Land	Buildings
Land Improvements	Building Improvements
Construction in Progress	Vehicles and Equipment
Infrastructure (modified approach)	Infrastructure not using the modified approach
Inexhaustible works of art & historical treasures	Exhaustible works of art & historical treasures

Depreciation

- Things to consider in implementing depreciation.
 - Depreciable lives
 - Depreciation methods
 - Capitalization threshold
 - In what department of the government does the asset belong?

Definition of Infrastructure

- Infrastructure, defined as:
 - Long-lived capital assets that can be preserved for a significantly greater period than most capital assets
 - Normally stationary items
 - Examples:
 - ◇ Roads and bridges
 - ◇ dams
 - ◇ Water and sewer systems

Infrastructure Assets

- Reporting alternatives
 - Modified approach
 - Historical cost based depreciation

“Modified” Approach

- No depreciation is required if the government demonstrates that it is maintaining qualifying infrastructure assets approximately at or above the condition level established.
- Condition assessments must be performed at least every three years.

Non Modified Approach

- Capitalize expenditures that meet the Government's policy for addition.
 - Capitalization threshold, typically at least \$5,000
 - And useful life greater than one year
- Depreciate the assets over the useful life

Key Difference between the Two Approaches

- Under the non modified approach, capitalizable improvements include expenditures that either:
 - 1) lengthen the useful life of a capital asset OR
 - 2) increase the efficiency or effectiveness of a capital asset.

****** If a government selects the modified approach, however, only the second type of improvement may be capitalized.

Capitalization of Replacements

- Subsequent to the acquisition of capital assets, a government may accrue costs for:
 - Additions
 - Improvements and replacements
 - Rearrangements and reinstallations
 - Repairs and maintenance

Internal Control Considerations for Capital Assets

Monitoring Controls:

- How well are capital asset records maintained, including how such records are integrated into the accounting system? Are subsidiary ledger and/or tag system used containing information such as description, location, cost, tag #, useful life, etc. for each capital asset?
- Are individual(s) responsible for processing invoices knowledgeable of your entity's capitalization policy? What is the risk that a capital asset addition could get improperly expensed? Or only partially recorded (i.e. not including any ancillary costs associated with getting the asset in place, such as shipping and installation)

Internal Control Considerations

- Reconciliation Controls:
 - Ensure that the detailed listing of capital asset schedule reconciles to the general ledger (for proprietary funds) and roll-forward schedule (for governmental and proprietary funds).
 - Ensure that capital asset additions related to governmental funds are reconciled to the capital outlay expenditure accounts.

Internal Control Considerations

- Physical Inventory Controls:
 - Are periodic physical counts/comparisons made to ensure that all capital assets included on the depreciation schedule are in existence? Does the nature and frequency of the counts meet regulatory requirements?
 - If an asset is damaged or can no longer be used, does your entity have a written policy in place governing the treatment of those assets that are to be disposed of or sold? What controls are in place to ensure such policy is followed?

Internal Control Considerations

Recording Capital Asset Acquisitions

- Requisition: Is procurement policy followed? Purchase order always generated? Or can a capital item be purchased via check request or purchasing card?
- Payment: What layers of review take place before an invoice for a capital acquisition is paid?
- Segregation of Duties: Does the person(s) approving capital asset purchases have the ability to initiate purchases and create the documents supporting purchase initiation? If yes, who reviews and approves such purchases?

Internal Control Considerations

Cutoff

- What does your entity do in order to ensure that all capital asset acquisitions are recorded in the proper period (including construction-related costs and retainage)?
- Are capital projects closed out and depreciated timely?

What controls are in place to verify this?

Capital Planning Policies

- Have a capital planning policy in place before capital budgeting
 - Address policies for accounting, maintenance, and replacement of capital assets
 - Make sure leaders, management and staff understand their roles in the capital planning process
 - Know your government's capital needs, plan for debt issuance, and impact on reserves

Considerations for your capital planning policies

How team will work to achieve the plan to meet your organization's needs

- Definitions of capital assets, capital improvement, significant capital maintenance projects
- Establishment of a capital planning / long-range financial management committee
- Ways to assess fiscal capacity for your government
- How to monitor and manage capital asset lives vs. debt issuance in terms of funding strategies
- Who monitors the plan? Who updates the plan? – never a static process

The Financial Statements

Common Mistakes in Government-wide Financial Statements and Governmental Fund Statements

Government-wide Financial Statement Mistakes

- Net Investment in Capital Assets

Calculation of Net Investment in Capital Assets

Net Investment in Capital Assets in a classification of net position that is shown on the Statement of Net Position (full accrual balance sheet).

Government-wide Financial Statement Mistakes

- Net Investment in Capital Assets

Calculation of Net Investment in Capital Assets

Calculation	Inputs
Begin with:	Capital Assets, net of depreciation
Less:	Debt, including refunding issuances (related to capital acquisition)
Add back:	Unspent bond proceeds
Plus/minus:	Deferred outflows related to deferred loss on refunding (Deferred inflows related to deferred gain on refunding)
End with:	Net Investment in Capital Assets

Government-wide Financial Statement Mistakes

- Net Investment in Capital Assets

Practice Example:

The City of Springfield has \$100m in capital assets net of depreciation at the end of the year. The City has \$50m in capital related debt through two bond issuances, of which one issuance has \$10m in unspent bond proceeds. The City has a \$5m deferred loss on refunding which occurred in the current year, at an issuance cost of \$2m. What should be reported as the Net Investment in Capital Assets?

Government-wide Financial Statement Mistakes

- Net Investment in Capital Assets

Example Answer:

City of Springfield (in millions)

Capital Assets, net of depreciation:	100
Less: Capital related debt	-50
Add: Unspent bond proceeds	10
Add: Deferred Outflow - Loss on Refunding	<u>5</u>
Net Investment in Capital Assets	65

Government-wide Financial Statement Mistakes

- Deferred Gain/Loss on Refunding

Deferred Gain/Loss on Refunding

- *GASB 65 Definition*: The deferred gain/loss on refunding is the difference between the reacquisition price and the net carrying amount
- Should be shown as a deferred outflow/inflow of resources

Government-wide Financial Statement Mistakes

- Deferred Gain/Loss on Refunding

GASB 65 Definition: The deferred gain/loss on refunding is the difference between the reacquisition price(1) and the net carrying amount(2).

(1) Reacquisition Price is the amount required to repay previously issued debt, including principal and any call premium. In an advance refunding, it is the amount placed in escrow to be used to pay interest and principal on the old debt.

(2) Net carrying amount is the principal remaining on the old debt, adjusted for any unamortized premium or discount.

Government-wide Financial Statement Mistakes

- Deferred Gain/Loss on Refunding

Practice Example:

The City of Springfield placed \$27m in an irrevocable trust to defease \$20m of general obligation bonds which had an outstanding premium of \$2m. The City expects an economic gain of \$3m from the refunding. What deferred outflow/inflow of resources should be shown?

Government-wide Financial Statement Mistakes

- Deferred Gain/Loss on Refunding

Example Answer:

Reacquisition Price:

Amount Placed in Escrow	27
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Net Carrying Amount:

Remaining Principal	20
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Add: Premium	<u>2</u>
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Deferred Outflow of Resources

Deferred Loss on Refunding	<u>5</u>
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Government-wide Financial Statement Mistakes

- Deferred Gain/Loss on Refunding

Additional Notes:

- Amount placed in escrow (advance refunding) is to be shown as an “Other Financing Use” on the fund statements.
- Deferred loss on refunding is to be amortized (straight line is acceptable) over the shorter of the remaining life of the old debt or the life of the new debt.
- Debt issuance costs are expensed in the period incurred and are not included in the calculation.
- Economic gain or loss should be reported in the footnote disclosure

Government-wide Financial Statement Mistakes

- Expenses

- **Statement of Activities:**
- Expenses should be shown by function, not by object
- *Example:*
- Function: Public Safety
- Object: Police Vehicles

Governmental Fund Statements – Common Mistakes

- Major Fund Determination

Major Fund Determination:

- The major fund determination calculation should include deferred outflows and inflows of resources
- The calculation should NOT include other financing sources/uses
 - meaning bond proceeds should not be included as revenue
- Major funds should be clearly identified on the fund financial statements

Major Fund Criteria

- General Fund is always a major fund
- Individual fund is:
 - At least 10 percent of assets including deferred outflows, liabilities including deferred inflows, revenue, expenditures/expenses, (excluding extraordinary items) of the relevant category or fund type
- At least 5 percent of total governmental and enterprise funds combined
- Other funds that are deemed to be important for separate disclosure

Governmental Fund Statements – Common Mistakes

- Fund Balance

- **Common Fund Balance Mistakes:**
- Only the General Fund can have positive unassigned fund balance.
- Cannot show a negative assigned fund balance
- Or a positive assigned fund balance if there is a negative unassigned fund balance

Footnote Example of Appropriation and Budgeting Errors

Stewardship

- Expenditures in the following funds exceeded appropriations during 2020. This may be a violation of Colorado Revised Statutes 21-1-110.

General Fund \$ 688,007

Water Fund \$ 595,578

- The Town budgeted a negative fund balance in the General Fund of \$116,431 as of December 31, 2020. This may be a violation of Colorado Revised Statutes.

Fund Balance Classifications on Statements

Fund Balance classifications must be shown in the following order:

- Non-spendable
- Restricted
- Committed
- Assigned
- Unassigned

End of Day One

- Questions and Discussion

Governmental Fund Statements – Budgetary Comparison Schedules

Budgetary Schedules in the Basic Financial Statements should only be shown for:

- 1. General Fund*
- *2. Major Special Revenue Funds*
- DO NOT include debt service or capital projects fund budgetary schedules in the Basic Financial Statements even if they are major funds.
- All other governmental funds with legally adopted budgets should only be shown in the Supplementary Information section.

Governmental Fund Statements – Budgetary Comparison Schedules

Review that actual expenditures + transfers out are less than budgeted expenditures + transfers out (appropriations) in total by fund

- Means that Management spent more than approved by Governance
- Can potentially be a legal violation – to be disclosed in footnotes

Reviewing Common Financial Statement Tie Outs

- Basic Financial Statements

Basic Financial Statements consist of:

- Statement of Net Position
 - Full accrual “balance sheet”
- Statement of Activities
 - Full accrual “income statement”
- Balance Sheet
 - Modified accrual
 - Also includes reconciliation to Statement of Net Position
- Statement of Revenues, Expenditures, and Changes in Fund Balance
 - Modified accrual
 - Also includes reconciliation to Statement of Activities
- Statement of Cash Flows (*For Proprietary Funds*)

Treatment of Internal Service Funds - reminder

- Remove the “doubling up” effect of internal service fund activity.
- Generally, assets and liabilities are reported with governmental activities – unless internal service funds primarily support business-type activities.

Reviewing Common Financial Statement Tie Outs

- Internal Consistency

- Financial Statements should be internally consistent
 - Consistent down to the dollar
 - ◊ Rounding – should be applied consistently throughout each statement and schedule
 - Regardless of overall materiality

Reviewing Common Financial Statement Tie Outs

- Comparing to prior year statements

Beginning fund balance/net position should be compared to ending numbers from the prior year

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended December 31, 2015

Net change in fund balance	3,403,403
Fund balance - beginning	45,469,951
Fund balance - ending	\$ <u><u>48,873,354</u></u>

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended December 31, 2014

Net change in fund balance	(5,033,170)
Fund balance - beginning	50,503,121
Fund balance - ending	\$ <u><u>45,469,951</u></u>

Reviewing Common Financial Statement Tie Outs

- Comparing to prior year statements

Rollforward schedules (capital assets, long term debt, etc.) should be compared to prior year ending amounts

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Balance June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Capital assets, not depreciated				
Land	<u>\$ 1,398,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,398,334</u>
Capital assets, being depreciated				
Buildings and building improvements	<u>13,768,392</u>	<u>106,336</u>	<u>-</u>	<u>13,874,728</u>
Furniture and equipment	<u>511,683</u>	<u>18,546</u>	<u>-</u>	<u>530,229</u>
Total capital assets, being depreciated	<u>14,280,075</u>	<u>124,882</u>	<u>-</u>	<u>14,404,957</u>
Accumulated depreciation:				
Buildings and building improvements	<u>(4,061,475)</u>	<u>(389,401)</u>	<u>-</u>	<u>(4,450,876)</u>
Furniture and equipment	<u>(475,183)</u>	<u>(8,846)</u>	<u>-</u>	<u>(484,029)</u>
Total accumulated depreciation	<u>(4,536,658)</u>	<u>(398,247)</u>	<u>-</u>	<u>(4,934,905)</u>
Total capital assets, being depreciated, net	<u>9,743,417</u>	<u>(273,365)</u>	<u>-</u>	<u>9,470,052</u>
Total capital assets	<u>\$ 11,141,751</u>	<u>\$ (273,365)</u>	<u>\$ -</u>	<u>\$ 10,868,386</u>

Reviewing Common Financial Statement Tie Outs

- Between financial statements

Amounts should be consistent between statements
(after considering the effect of reconciliation items)

STATEMENT OF NET POSITION Year Ended June 30, 2015

	Governmental Activities
ASSETS	
Cash	\$ 1,852,160
Restricted cash and investments	1,526,079
Prepaid items	66,169
Intergovernmental receivable	3,532
Capital assets, not being depreciated	1,398,334
Capital assets, depreciated, net of accumulated depreciation	9,470,052
TOTAL ASSETS	14,316,326

BALANCE SHEET – GOVERNMENTAL FUNDS June 30, 2015

	General	Facility Corporation	Foundation Fund	Total
ASSETS				
Cash	\$ 1,848,167	\$ -	\$ 3,993	\$ 1,852,160
Restricted cash and investments	-	1,526,079	-	1,526,079
Prepaid expense	66,169	-	-	66,169
Intergovernmental receivable	3,532	-	-	3,532
TOTAL ASSETS	\$ 1,917,868	\$ 1,526,079	\$ 3,993	\$ 3,447,940

Reviewing Common Financial Statement Tie Outs

- Between financial statements

Amounts should be consistent between statements

Balance Sheet Governmental Funds December 31, 2015

Fund balances (deficits)	
Nonspendable	21,446
Restricted	6,237,852
Committed	-
Assigned	8,943,657
Unassigned	33,670,399
	<hr/>
Total fund balances (deficits)	48,873,354

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended December 31, 2015

Net change in fund balance	3,403,403
Fund balance - beginning	45,469,951
	<hr/>
Fund balance - ending	\$ 48,873,354

Reviewing Common Financial Statement Tie Outs

- Between statements and footnotes

Amounts should be consistent between the basic statements and the related footnotes

NOTE 5 – BONDS PAYABLE

Changes in bonds payable for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
Bonds payable	\$ 13,740,000	\$ -	\$ 565,000	\$ 13,175,000

STATEMENT OF NET POSITION Year Ended June 30, 2015

LIABILITIES

Accounts payable and accrued expenses	55,773
Accrued salaries and benefits	457,470
Accrued interest	47,974
Unearned revenue	6,050
Noncurrent liabilities	
Due within one year	585,000
Due in more than one year	12,590,000
Net pension liability	14,040,133
TOTAL LIABILITIES	27,782,400

Reviewing Common Financial Statement Tie Outs

- Between statements and footnotes

Amounts should be consistent between the basic statements and the related footnotes

NOTE 5 – BONDS PAYABLE

Changes in bonds payable for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
Bonds payable	\$ 13,740,000	\$ -	\$ 565,000	\$ 13,175,000

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

EXPENDITURES

Current:

Instruction	6,598,216
Support services	3,942,208
Capital outlay	124,882
Debt service	
Principal	565,000
Interest	625,813

Reviewing Common Financial Statement Tie Outs

- Between statements and reconciliations

Amounts should be consistent between the statements and the reconciliations between modified and full accrual

Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Position December 31, 2015

The deferred charge on refunding of bonds is not an available resource and, therefore, is not reported in the funds.

1,745,835

Statement of Net Position December 31, 2015

Deferred outflows of resources	
Refunding of bonds	1,745,835
Pension outflows	19,893,499
Total deferred outflows of resources	<u>21,639,334</u>

Reviewing Common Financial Statement Tie Outs

- Between statements and reconciliations

Amounts should be consistent from fund balance classifications and the related account(s)

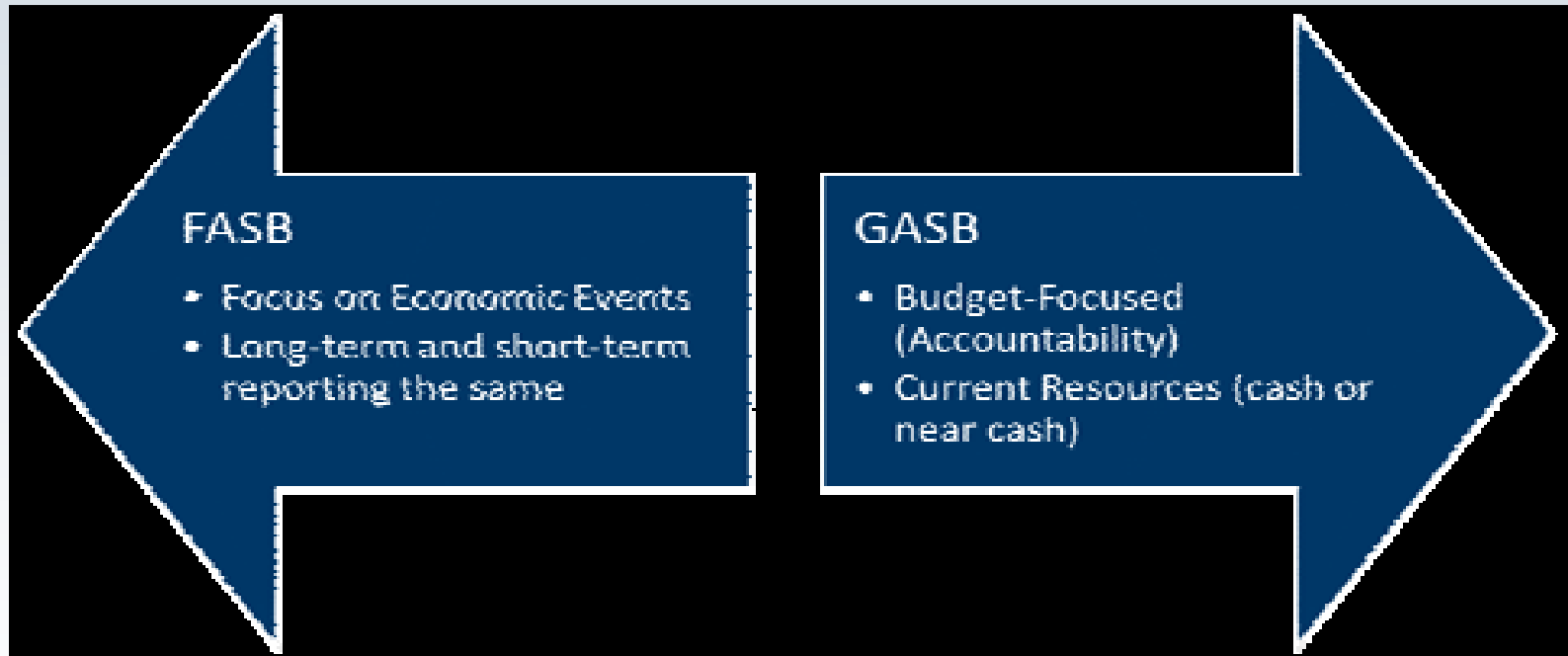
Balance Sheet Governmental Funds December 31, 2015

	General
Assets	
Cash and investments	\$ 50,616,729
Restricted cash and investments	62,970
Accounts receivable	3,607,171
Taxes receivable, net	98,286,766
Due from other funds	1,684,632
Prepaid items	21,446
Due from Airport Authority	-
Inventories	-
Total assets	\$ 154,279,714

Fund balances (deficits)	
Nonspendable	21,446
Restricted	6,237,852
Committed	-
Assigned	8,943,657
Unassigned	33,670,399
Total fund balances (deficits)	48,873,354

Analyzing Governmental Financial Statements - to help explain to others

- **Core Differences between FASB & GASB**



Do we know the Accounting Equation?



Brief Overview of Fund Types

- **Governmental fund category**
 - General fund
 - Special revenue funds
 - Capital projects funds
 - Debt service funds
 - Permanent funds
- **Proprietary fund category**
 - Enterprise funds
 - Internal service funds
- **Fiduciary fund category**
 - Pension (and other employee benefits) trust funds
 - Investment trust funds
 - Private-purpose trust funds
 - Custodial funds

Major Funds vs. Non-Major Funds

Major Funds

- Significant 5%/10% require separate column
- General Fund always major

Non-Major Funds

- Reported in aggregate
- Detail of these funds can be found in the combining statements

Component Units

Blended Component Unit

- Included in the financial statements of the primary government as if it is part of the reporting entity

Discretely Presented Component Unit

- Separately reported on the government-wide financial statements and separate footnotes

Example Governmental Financial Statements



Difference from Fund Statements (1 of 2)

- Long-term assets
 - Receivables
 - Capital Assets
- Liabilities
 - Debt
 - Compensated Absences
 - Claims and Judgments
 - Pension Benefit Obligation
 - Other Post Employment Benefits (OPEB)

Difference from Fund Statements (2 of 2)

- Inventory (expense when used rather than when purchased). Previously had the option of using the consumption method or the purchase method, but now we can only use the consumption method.
- Interest payable on long-term debt.

Differences from Fund Statements

- Recognition of revenues on accrual basis.
 - Property taxes – no availability criterion, recorded on full accrual basis of accounting.
 - Recognition of expenses for long-term liabilities.
 - ◇ Compensated absences
 - ◇ Claims and judgments
 - ◇ Pension benefit obligation
 - ◇ OPEB

Required Supplementary Information

- Budgetary comparisons for general fund and major special revenue funds
 - Original and final budget
 - Actual on budgetary basis or GAAP basis
 - Reconciliation to GAAP basis statements
 - When applicable – infrastructure-modified approach
 - ◇ Three most recent condition assessments
 - ◇ Estimated amount to maintain and preserve versus actual amount for the last five years

MD & A

Management Discussion and Analysis

- The MD & A is a section of a government's annual report in which management discusses numerous aspects of the company, both past and present. Among other things, the MD&A provides an overview of the previous year of operations and how the government fared in that time period. Management will usually also touch on the upcoming year, outlining future goals and approaches to new projects.

MD & A

- The MD&A is a very important section of an annual report, especially for those analyzing the fundamentals, which include management and management style. Although this section contains useful information, investors should keep in mind that the section is unaudited.

MD & A

- MD&A's should:
 - enable readers to view the government through the eyes of management;
 - complement as well as supplement financial statements;
 - be reliable, that is, complete, fair and balanced, and providing material information — namely, information that could influence a reasonable investor in making a decision to invest or continue to invest in the government;

MD & A

- Have a forward-looking orientation;
 - focus on management's strategy for generating value for investors over time;
 - be written in plain language, with candor and without exaggeration, and embody the qualities of understandability, relevance, comparability and consistency over reporting periods.

Financial Statement Data Analysis

- MD & A is the only required component of the financial statements that has comparative information. These comparative summaries or schedules include:
 - Net Positions
 - Changes in Net Positions
 - Capital Assets
 - Long-term debt

Fiscal Health Analysis for Colorado Counties and Municipalities

Ratio 1: Cash to Liabilities Ratio (CLR)

Entity-Wide Unrestricted Cash and Investments

Entity-Wide Current Liabilities

Ratio 2: Unrestricted Fund Balance Ratio (UFB)

General Fund Unrestricted Fund Balance

General Fund total Expenditures (Net of Transfers

Ratio 3: Debt Burden Ratio (DBR)

Total Governmental Revenue of Fund(s) Paying Debt

Total Governmental Debt Payments

Fiscal Health Analysis for Colorado Counties and Municipalities

Ratio 4: Tax Revenue per Capita (TRC)

$$\frac{\text{Total Governmental Funds Tax Revenue}}{\text{Population}}$$

Ratio 5: Expenditures per Capita (EPC)

$$\frac{\text{General Fund Total Expenditures (Net of Transfers)}}{\text{Population}}$$

Fiscal Health Analysis for Colorado Counties and Municipalities

Ratio 6: Operating Margin Ratio (OMR)

General Fund Total Revenue – (General fund Total Expenditures, Net of Transfers)
General Fund Total Revenue

- **Ratio 7: Enterprise Funds Net Position (EFNP)**

Current Year Net Position of the Enterprise Fund
Prior Year Net Position of the Enterprise Fund

<https://leg.colorado.gov/audits/fiscal-health-analysis-colorado-counties-and-municipalities>

Annual Report Preparation

- Discussion Topics
 - Annual Report Preparation - overview and common pitfalls
 - Capital Assets – presentation and disclosure issues and strategies
 - Long-Term Debt – presentation and disclosure issues and strategies
 - Revenue Recognition and Deferred Revenue – governmental vs. government-wide

Annual Report Preparation

Common Pitfalls in Annual Report Presentation

- Converting from modified accrual to full accrual statements
- Footnotes do not agree with what is presented in the basic financial statements
- Implementation of new pronouncements and related disclosures

Annual Report Preparation

Keys to Preparing Annual Report

- Reporting information in the fund statements under the correct functional or activity
 - (i.e. interest expenditures, debt principal payments and capital outlay)
- Preparing footnote disclosures that tie into the basic financial statements and provide enough information to agree to reconciling items
 - (debt disclosure, capital assets disclosure and accounts receivable disclosure)
- Reduce the number of subsidiary schedules. The more schedules and preparation worksheets that are created, the greater the likelihood of an error

Annual Report Preparation

Keys to Preparing Annual Report

- Invested in capital assets, net of related debt
 - Items to exclude from the calculation
 - ◇ Unexpended bond proceeds. Bonds only become capital-related debt, and bond proceeds only become capital assets, as the proceeds are expended for a capital purpose.
 - ◇ * Bond issuance costs. Unlike premiums and discounts, unamortized bond issuance costs do not "follow the debt" and are ignored for purposes of this calculation.
 - ◇ * Internal borrowings. Borrowings within the primary government do not qualify for purposes of this calculation.

Annual Report Preparation

Keys to Preparing Annual Report

- Invested in capital assets, net of related debt (continued)
 - Items to include in the calculation
 - ◇ Intangible capital assets. The fact that a capital asset is intangible does not make it any the less capital.
 - ◇ Refunding bonds. Refunding bonds assume the character of the debt they replace. Accordingly, bonds used to refund capital-related debt are themselves considered to be capital-related.

Annual Report Preparation

Capital Assets

- Key is capital asset footnote
- Typical government has numerous assets in construction in progress account and it is recommended that governments consider a transfer column to account for completed projects that get moved from non depreciable assets to depreciable

Annual Report Preparation

Capital Assets

- Capital additions-Purchased assets versus contributed assets
 - Purchased assets are fund expenditures and to reconcile to full accrual basis need to “credit” expenditures
 - If capital outlay reported in the fund statements does not agree to the purchased capital additions need to determine those items reported under capital outlay and what function they belong for reporting on the statement of activities
 - If capital outlay already reported within functional expenditures in the fund statements need to remove the appropriate capital additions from the functional expenditures to report the accrual based functional expenses
 - Contributed assets are not considered fund expenditures or revenues and need to “credit” appropriate capital contribution revenue activity
 - Helpful to distinguish between additions that are contributed versus purchased to aid the reader when comparing fund activities

Annual Report Preparation

Capital Assets

- Disposal of capital assets-Reporting and calculating gain/loss
 - Governments routinely report disposals of capital assets. This activity is reported in the deletion column of the footnote and it is important to properly explain in the reconciliation what type of activity this represented during the year
 - Disposals themselves are not reported in the government fund statements
 - Cash proceeds received are reported in the fund statements as other financing source
 - Government-wide presentation report difference of book value of disposal and proceeds received from sale of capital assets as a gain/loss on sale of assets. The loss is reported as a functional expense within the proper functional relative to the asset disposed of and the gain is typically reported as a general revenue

Annual Report Preparation

Capital Assets

- Depreciation
 - Reconciling amount to agree to the footnote addition figure
 - Detail in footnote to disclose the expense by function

Annual Preparation

Long-Term Liabilities

- Agenda
 - Review disclosure requirements
 - Presentation suggestions
 - Inter-relationships and accuracy checks

Annual Report Preparation

Long-Term Liabilities

- Common Disclosure Requirements (GASB Cod. 2300)
 - Should include all long-term liabilities, including compensated absences and claims and judgments
 - Table of changes
 - Amount due within one year of statement date
 - Which governmental funds typically used to liquidate other long-term liabilities such as compensated absences in prior years

Annual Report Preparation

Long-Term Liabilities

- Common Disclosure Requirements (GASB Cod. 2300)
 - Debt service requirements to maturity – principal and interest (variable rate debt should use rate in place at year end and disclose variable rate structure)
 - Debt refunding
 - Interest rates, maturity dates, subordinate features (generally accepted)
 - Pledged assets and restrictive covenants (SFAS No. 5)

Annual Report Preparation

Long-Term Liabilities

- Component Unit Disclosure (Cod. 2300.115)
 - Up to professional judgment
 - Based on component unit's significance to total discretely presented component units and relationship to primary government

Annual Report Preparation

Long-Term Liabilities

- Other Special Disclosure/Reporting
 - Bond, tax or revenue anticipation notes
 - Special assessment debt
 - Demand bonds
 - Conduit debt

Annual Report Preparation

Long-Term Liabilities

- Presentation Suggestions
 - Include table of changes at the beginning of your long-term liabilities footnote
 - Include all long term liabilities in the same table
 - Total the entire table and reflect that amount in your reconciliation

Annual Report Preparation

Long-Term Liabilities

- Inter-relationships and accuracy checks
 - Use subtotals in the table that will agree directly to the SONP and Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance:
 - ◇ Ending amounts – current and long term = SONP
 - ◇ New debt issued = Statement of Revenue
 - ◇ Premiums or discounts should be separate Other Financing Source/Use = Statement of Revenue
 - ◇ Principal payments = Statement of Revenue
 - ◇ Loss on refunding – disclosure should state amount of principal refunded

Annual Report Preparation

Long-Term Liabilities

- Inter-relationships and accuracy checks
 - Internal Service fund debt – either show separately in footnote or in reconciliation, to agree to balance sheet

Annual Report Preparation

Revenue Recognition and Deferred Revenue

- Agenda
 - Review standards – modified accrual versus accrual
 - Relationship – government-wide vs. governmental funds
 - Relationship to reconciliations – governmental funds and government-wide statements

Annual Report Preparation

Revenue Recognition and Deferred Revenue

- Standards – Modified accrual basis - GASB Codification 1600.106
 - Revenues are to be recognized in the accounting period they become both measurable and available to finance expenditures of the fiscal period
 - Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
 - Length of time used to define available should be disclosed in the summary of significant accounting policies

Annual Report Preparation

Revenue Recognition and Deferred Revenue

- Standards – AICPA Accounting and Audit Guide – State and Local Governments 6.12
 - Notes that many governments use the property tax standard and accrue based on cash received during a defined number of days after year end
 - Many governments apply this time period approach for all types of revenues and in all governmental funds
 - Paragraph 6.13 – Differences between amount reported as receivables and the amounts recognized as revenues are reported as deferred inflows (a liability) (Prior to GASB 63 & GASB 65 was called deferred revenues)

Annual Report Preparation

Revenue Recognition and Deferred Revenue

- Standards Generally
 - Measurability is usually not the problem
 - Defining “available” is the problem
 - Real key to defining availability is whether such resources will be used to pay liabilities of the current period

Annual Report Preparation

Revenue Recognition and Deferred Revenue

- Relationship – government-wide vs. governmental funds
 - Auditors have seen two common problems:
 - ◇ Measurable transaction is recorded as revenue in both presentations, regardless of when cash was received
 - ◇ Measurable transaction is deferred in both presentations, even though accrual basis accounting clearly requires revenue recognition

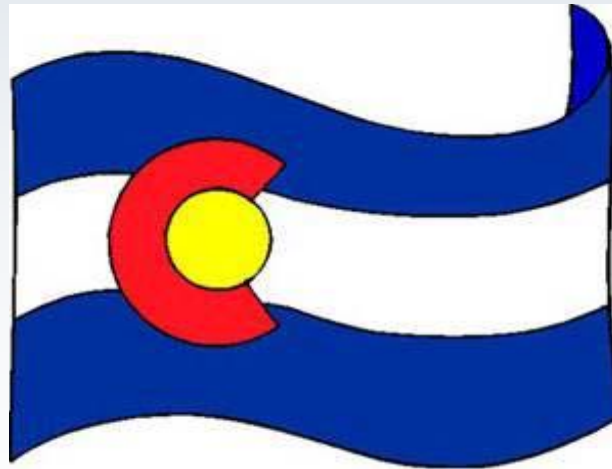
Annual Report Preparation

Revenue Recognition and Deferred Revenue

- Examples
 - Development fees to be paid over a period of several years
 - Long-term notes receivable
- Disclosure Examples
 - Consider inclusion of footnote if extensive differences exist

Issues Unique to Colorado Governments

- Budget Reporting Requirements
- TABOR
- Financial Safeguards and Fraud



Budget Reporting Requirements

CRS 92-1-103 requires each local government to adopt an annual budget.

To the extent that the financial activities of any local government are fully reported in the budget or budgets of a parent local government or governments, a separate budget is not required.

Such budget shall present a complete financial plan by fund and by spending agency within each fund for the budget year.

TABOR

- The TABOR amendment was approved by Colorado voters in 1992. TABOR places limits on revenue, spending, and debt which may be weakened only by the approval of the voters.
- TABOR requires the establishment of “emergency reserves...to use for declared emergencies only”, amounting to “3% or more of its fiscal year spending excluding bonded debt service”. [TABOR (5)]

TABOR

- “Fiscal year spending means all district expenditures and reserve increases except, as to both, refunds made in the current or next fiscal year or those from gifts, federal funds, collections for another government, pension contributions by employees and pension fund earnings, reserve transfers or expenditures, damage awards, or property sales”. [TABOR (2) (e)]

TABOR

- The term “reserve” in the definition of fiscal year spending refers to fund balances, and “reserve transfers or expenditures” means moneys which are passed from one fund of cash or assets held as a reserve to another such fund or moneys which are disbursed from such fund. [C.R.S. 24-77-102 (12-14)]

Management Process

- To-Do's for Managers
 - Plan
 - Perform
 - Evaluate
 - Communicate

Financial Safeguards and Fraud

Examples of fraud risks:

- Bookkeeper has access rights to write checks and set up vendors.

Wrote checks to fake vendors and coded to electricity expense. Had a heat spell that year, so when asked about the spike in utility expense, attributed to the heat.

- Federal funds – paying invoices from federal funding for activities not relating to the program or for non-business (personal) reasons
- Procurement card – using it to make personal purchases, paying the bill without support justifying expense
- Fraudulent invoices

Fraud takes many forms – embezzlement, theft, fraudulent financial reporting, bid rigging, inappropriate expense reports, etc.

Fraud Controls - Prevention

Preventative Controls - designed to prevent fraud before it has occurred.

Examples: Multiple people or lock boxes for checks

- **Timely** account balancing and reconciling and reviewing – complete by individual independent of transactions processed through the account. If you don't have access to reconcile an account, it is tougher to bury the evidence.
- Passwords and physical safeguards
- Authorization, approval, and limits – credit cards are a great example. Limit loss potential by capping credit limits.
- Segregation of duties – can be difficult in smaller environments.

Fraud Controls - Detection

Detective Controls - designed to detect fraud after it has occurred.

Examples:

- Systems maintenance reports – review to ensure changes are completed properly and authorized, i.e. changing authority in a system to give proper authority to add vendors
- Documentation reviews – complete to ensure files are complete, ensure disbursements are adequately supported by invoice or receipt
- Internal Audit/Periodic Sampling – can be performed by a variety of individuals, such as a board member or designated person independent from accounting/finance staff

Controls and Segregation of Duties

The optimal design for internal controls is separating the 4 significant components of a transaction or activity:

- Initiation of transaction or activity
- Authorization of transaction or activity
- Recording of transaction or activity
- Reconciliation of transactions or activities

Controls and Segregation of Duties (continued)

Accounts Payable and Disbursements

- Does your organization use purchase orders?
- Who creates new vendors?
- Does someone else approve new vendors?
- Who has access to the master vendor file?
- Can the same person create a vendor and enter an invoice for payment?
- Can the same person enter an invoice and cut a check?
- Do checks print without a signature on them?
- Who signs the checks?
- Is the check stock blank? Is it kept secured?

Controls and Segregation of Duties (continued)

Payroll

- Are there proper segregation of duties between HR and payroll functions?
 - New employees approved.
 - Changes in pay rates approved.
- If the reviewer changes pay rate or hours after review, would it be caught?
- Can those performing accounting functions access the payroll system?
- FTE Changes approved?
- Overtime monitored?

Controls and Segregation of Duties (continued)

Cash Receipts

- Who receives cash in your organization?
- Are two employees present when counting cash?
- Does your organization use duplicate receipts and/or a cash control log?
- Does the person receiving cash have access to record receipts in the accounting system?
- Who prepares the bank deposit? How often?

Helpful Websites

- Governmental Accounting Standards Board
<http://gasb.org/home>
 - Government Finance Officers Association
<http://www.gfoa.org/>
 - Government Finance Officers Association – Best Practices/Advisories:
<https://www.gfoa.org/best-practices--resources>
- Colorado Government Finance Officer Association
<http://www.cgfoa.org/>

Or you can contact me karinslater@hotmail.com