



# Beginning Governmental Accounting

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# Agenda

<b>Schedule</b>	<b>Topic</b>
12:30 PM - 12:35 PM	Introductions
12:35 PM - 12:50 PM	The Governmental Accounting Environment
12:50 PM - 1:20 PM	Fund Balance and Net Position
1:20 PM - 1:40 PM	Revenue
1:40 PM - 1:50 PM	Break
1:50 PM - 2:05 PM	Deferred Outflows and Deferred Inflows of Resources, Long-term Liabilities
2:05 PM - 2:30 PM	Capital Assets
2:30 PM - 2:40 PM	Break
2:40 PM - 3:05 PM	Basics of GASB 68/75
3:05 PM - 3:25 PM	Compensated Absences
3:25 PM - 3:35 PM	Break
3:35 PM - 4:30 PM	Government-wide Statements vs. Fund Statements - Walkthrough of a CAFR



## The Governmental Accounting Environment - reminders

# The Government Environment - Reminders

## 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 current resources (fiscal accountability).

# The Government Environment – Reminders (cont'd)

## 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 proprietary funds (i.e. government operated golf courses).
  - Sometimes services offered by governments do not function like private-sector businesses so they are described as governmental funds (i.e. public safety).

# The Government Environment – Reminders (cont'd)

Special measurement focus and basis of accounting for government entities

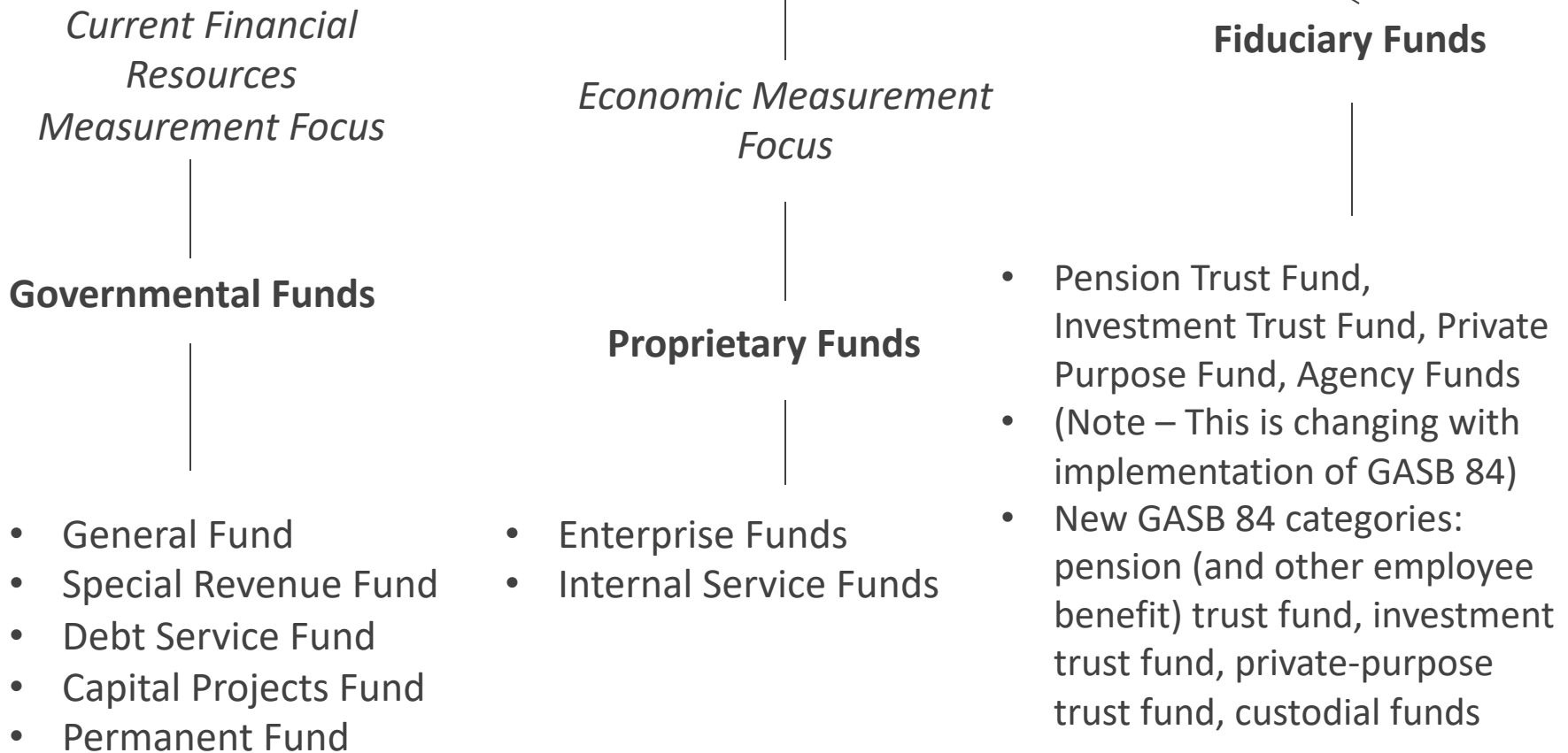
- Governments use two different measurement focus.
  - Proprietary funds use an economic resources measurement focus.
  - Governmental funds use a current financial resources measurement focus.

## Reminders about Fund Accounting

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

# Overview

## Fund Accounting





## Fund Balance and Net Position

## *Fund Balance and Net Position*

- Fund Balance/Net Position = “Equity”
  - Fund Balance = Modified Accrual Equity
  - Net Position = Full Accrual Equity

# *Fund Balance Classifications*

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

## *Fund Balance Classifications*

### **Nonspendable fund balances are either**

- a. Not in spendable form
- b. Legally or contractually required to be maintained intact

### **Examples:**

- ✓ Inventory of materials and supplies
- ✓ Prepaids

# *Fund Balance Classifications*

## **Fund Balance is Restricted when:**

- a. **Externally** imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
  - b. Imposed by law through constitutional provisions or enabling legislation.
- Frequently based on a restricted revenue source

### *Examples:*

- ✓ Excess revenues from a gasoline tax where legislature requires that the taxes be used to maintain roadways
- ✓ TABOR minimum reserves

## *Fund Balance Classifications*

### **Committed Fund Balance:**

- Constraint imposed by **formal action** of the individual government's **highest level of decision-making authority**

### *Examples:*

- ✓ Board resolution to purchase a capital asset in the future

# *Fund Balance Classifications*

## **Assigned Fund Balance:**

- Constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed

### **Who can assign a fund balance?**

- a. The governing body itself
- b. A body of the government, such as a budget or finance committee
- c. An official who has delegated authority to assign amounts for a specific purpose

### *Example:*

- ✓ Approved budget where budgeted expenditures exceed budgeted revenues

# *Fund Balance Classifications*

## **Unassigned Fund Balance:**

- What's left over?
  
- Unassigned fund balance can only be in the General Fund

### *Example:*

- ✓ Remaining fund balance after all other classifications have been determined

# *Fund Balance Classifications*

## **Unassigned Fund Balance:**

- ❖ **Caveat** – Whenever fund balance is negative, the amount is shown as unassigned.
  - Even if the fund normally shows a restricted, committed, or assigned fund balance

# *Net Position Classifications*

- Net Investment in Capital Assets
- Restricted
  - Distinguish between major categories of restrictions
- Unrestricted

# 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)
Less:	Retainage payable relating to capital assets
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

# *Fund Balance Classifications*

## **Restricted Net Position:**

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
  - b. Imposed by law through constitutional provisions or enabling legislation.
- Same definition as restricted fund balance
- ✓ Still need to consider changes due to converting from modified accrual to full accrual when carrying restricted fund balance to restricted net position

# *Fund Balance Classifications*

## **Unrestricted Net Position:**

- What's left over?



# Revenue

# *Revenue Classifications*

## **1. Exchange transactions**

- Transaction in which each party in the transaction directly receives and gives up something of value

## **2. Nonexchange transactions**

- Transaction in which the government receives value without directly giving value (or vice versa)

# *Exchange Transactions*

*Examples: Charges for Services, Licenses, Permits, Fees, Fines, Forfeits*

## **Revenue Recognition General Rule:**

- Recognized in governmental funds when the exchange takes place and:
  - a) Revenue is measurable
  - b) Collection of the revenue is probable

# ***Nonexchange Transactions***

## **1. Derived Tax Revenues**

- Result from assessments made by governments on exchange transactions
  - ✓ *Examples:* Income tax, sales and use tax, fuel taxes, etc

## **2. Imposed Nonexchange Revenues**

- Assessments not based on exchange transactions
  - ✓ *Examples:* Property taxes, fines, penalties, property forfeitures

## **3. Government-mandated Nonexchange Transactions**

- Government requiring another government to perform a program
  - ✓ *Examples:* State mandated road improvements, federally mandated drug abuse programs

## **4. Voluntary Nonexchange Transactions**

- Legislative or contractual agreements entered into willingly between governmental or nongovernmental entities (some grants, endowments, etc)

# Revenue Recognition in Governmental Funds

## Revenue Recognition – Fund Level

- Revenues are **recognized** when they are **measurable** and **available**
  - Shown as deferred inflow if not available
  - **Measurable**
    - ◇ Can quantify the revenue objectively
  - **Available**
    - ◇ Collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period
      - *Current period* is generally defined as within 60 days of the financial report date.

# Derived Tax Revenues

*Examples: Sales taxes, income taxes, motor fuel taxes*

## Receivable Recognition

- When “underlying exchange has occurred” or when received, whichever is first

## Revenue Recognition

- When “underlying exchange has occurred”
  - Report as deferred inflow if not “available”

# Imposed Nonexchange Revenues

*Examples: Property taxes, most fines and forfeitures*

## Receivable Recognition

- When “enforceable legal claim has arisen” or when received, whichever is first

## Revenue Recognition

- When “resources are required to be used” or “period for which levied”
  - *Reason why property taxes are shown as revenue for the amount collected during the year, and receivable/deferred inflow for the following year’s collections*

# Imposed Nonexchange Revenues

## Property Taxes

- Calculated as the mill levy multiplied by assessed value
  - One mill = 1/1000
- Collected in the year **after** mill levy is approved
- Revenue recognized when collected
- Receivable/Deferred Inflow for current year mill
  - To be received in the following year

# *Revenue Sources – Governmental Funds*

## **Major Sources**

- 1. Taxes**
- 2. Licenses and permits**
- 3. Intergovernmental revenues**
- 4. Charges for Services**
- 5. Fines and Forfeits**
- 6. Miscellaneous**

## *Grant Revenue*

- **Frequently on a reimbursement basis**
  - Need for grant code in Chart of Accounts to identify expenditures for reimbursement
- **Federal Grants**
  - Recipients subject to Federal Single Audit requirements

# *Single Audit*

- **Single Audit occurs if receiving over \$750k in Federal funding**
- **Only a sample of Federal grants are tested in detail**
- **Audit of Compliance Requirements**
  - Compliance Requirement Examples: Allowable costs, spending cash before requesting reimbursement, eligibility, reporting
- **Internal Control over Compliance**
  - Not sufficient to be compliant. Must have controls in place to ensure compliance
- **Performed by independent auditors**
  - Auditors must meet Federal requirements
- **Report gets uploaded to the Federal government**



## Deferred Inflows and Outflows of Resources, and Long-Term Liabilities

# Deferred Outflows of Resources

## Deferred Outflows of Resources

- A consumption of net position that is applicable to a future reporting period
- Has a positive effect on net position
  - ◇ Similar to assets
- Common Example Transactions
  - ◇ Grants **paid** in advance
  - ◇ Deferred amounts from the refunding of debt (debits)

# Deferred Outflows of Resources

<b>Assets</b>	
Cash and investments	\$ 155,315,117
Accounts receivable	13,255,109
Property tax receivable, net	143,938,423
Due from other governments	2,902,614
Inventories	523,271
Prepaid and other items	36,437
Restricted cash and investments	47,964,061
Due from component unit	1,585,000
Total non-capital assets	<hr/> 365,520,032
Non-depreciable capital assets	427,139,406
Depreciable capital assets	421,836,877
Total capital assets	<hr/> 848,976,283
Total assets	<hr/> 1,214,496,315
<b>Deferred outflows of resources</b>	
Refunding of bonds	1,745,835
Pension outflows	19,893,499
Total deferred outflows of resources	<hr/> 21,639,334

# Deferred Inflows of Resources

## Deferred Inflows of Resources

- An acquisition of net position that is applicable to a future reporting period
- Has a negative effect on net position
  - ◇ Similar to liabilities
- Common Example Transactions
  - ◇ Taxes received in advance
  - ◇ Grants **received** in advance
  - ◇ Deferred amounts from the refunding of debt (credits)
  - ◇ “Unavailable Revenue” in governmental funds
    - Outside of 60 day “availability” classification

# Deferred Inflows of Resources

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and investments	1,315,856
Receivables	
Other	80,048
Property taxes	307,035
Total assets	<u>\$ 1,702,939</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 17,569
Accrued salaries payable	19,541
Total liabilities	<u>37,110</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	<u>307,035</u>
Total deferred inflows of resources	<u>307,035</u>

# *Long-term Liabilities*

## **Two Primary Types of Debt**

- 1. General Obligation (GO) Debt**
- 2. Revenue Bonds**

*Distinction: What security is pledged to back the repayment of the bonds (ie. what revenue can be used to pay back the debt)*

# *Long-term Liabilities*

## **General Obligation (GO) Debt**

- ✓ Most common form of state and local government debt
- ✓ Secured by full faith and credit of the government
  - Maximum security to bondholders
- ✓ Generally can be re-paid by all sources of revenue
- ✓ Typically authorized by voters in a bond referendum

# Long-term Liabilities

## Revenue Bonds

- ✓ Payments on debt come from a specific revenue source
  - *Could be a sales tax, utilities charges, toll road fees, etc*
- ✓ Revenue source often matches what the bond proceeds are used for
  - *Revenue Bonds for sewer treatment facility backed by sewage fees*
- ✓ Generally have more stringent requirements
  - *Such as bond insurance or debt service reserves*
- ✓ Usually do not require voter approval (but it DOES in Colorado)

# *Long-term Liabilities – Other Financing Options*

## **Certificates of Participation (COPs)**

- ✓ Also referred to as “Lease rental revenue bonds”
  
- 1. Proceeds from bonds to acquire a capital asset through a trustee
- 2. Trustee leases the asset to the government
- 3. Government’s lease payments to the trustee repay the COPs

*Investor Incentives for COPs: Lease payments to the trustee which then pass through to the investor(s), including interest, are tax exempt.*

# *Long-term Liabilities*

## **Footnote Disclosures**

### **1. Schedule of changes in long-term liabilities**

- Includes all long-term obligations except pension and other postemployment benefits (OPEB)

### **2. Schedule of Debt Service Requirements**

- Principal and Interest reported separately
- Shows next five years individually, then five year increments

### **3. Description of individual bond issues outstanding**

- Including the type of bonds (GO or revenue) the purpose for which they were issued, the original issue date and amount, the current amount outstanding, interest rates, maturities, and significant bond covenants and liquidity agreements

## Example: Schedule of Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>Governmental Activities:</b>					
Bonds and notes payable:					
General obligation debt	32,670	22,205	(22,300)	32,575	2,729
Revenue bonds	14,485	15,840	(14,485)	15,840	1,040
Certificates of Participation	1,203	—	(954)	249	249
Total bonds and notes payable	<u>48,358</u>	<u>38,045</u>	<u>(37,739)</u>	<u>48,664</u>	<u>4,018</u>
Other liabilities:					
Compensated absences	8,070	2,669	(2,864)	7,875	1,688
Total other liabilities	<u>8,070</u>	<u>2,669</u>	<u>(2,864)</u>	<u>7,875</u>	<u>1,688</u>
Governmental activities long-term liabilities	<u><u>56,428</u></u>	<u><u>40,714</u></u>	<u><u>(40,603)</u></u>	<u><u>56,539</u></u>	<u><u>5,706</u></u>

## Example: Schedule of Debt Service Requirements

<b>Year Ended December 31,</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 2,729	\$ 3,569
2020	2,826	3,326
2021	2,932	3,164
2022	3,012	3,079
2023	3,098	3,035
2024-2028	15,548	13,549
2029-2033	2,430	1,832
Total	<u>\$ 32,575</u>	<u>\$ 31,554</u>



## Capital Assets

## 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 Assets - reminders

- **Depreciation expense is reported for all capital assets except for:**
  1. Inexhaustible capital assets
    - ✓ Example: Land
  2. Construction in Progress

## ***Capital Assets***

- **When should assets be capitalized?**
  - *Capitalization policies vary by entity*

### **GFOA Best Practices/Recommendations**

1. Assets should be capitalized only if they have a useful life of at least two years.
2. Thresholds should be applied to individual assets, not groups of similar assets, unless doing so eliminates an entire class of assets, such as library books.
3. Thresholds should not be less than \$5,000 for any type of capital asset.

# ***Capital Outlay Reconciliation – Common Issues***

- 1. Capital outlay accounts contain expenditures that should not be capitalized**
  - Sometimes may be a “capital asset” but doesn’t meet the capitalization threshold --- exclude from capital outlay
- 2. Purchase of capital asset is recorded in accounts other than capital outlay**
  - Makes tracking capital additions difficult
  - Need to know what expense function to adjust on government-wide statements



## Basics of GASB 68/75

## ***GASB 68/75 – Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits***

- **GASB 68** was a huge change in governmental accounting for participants in defined benefit pension plans
  - Effective Date was for fiscal years beginning after June 15, 2014
    - ◇ (ie. Years ended June 30, 2015 and December 31, 2015)
- **GASB 75 – Similar effects of GASB 68**
  - Effective Date was for fiscal years beginning after June 15, 2017
    - ◇ (ie. Years ended June 30, 2018 and December 31, 2018)

# **GASB 68 – Accounting and Financial Reporting for Pensions**

## **Prior to GASB 68:**

- Participation in a defined benefit pension plan and related information is disclosed in a footnote. Financial health of the pension is the reporting responsibility of the pension plan.

## **After GASB 68 Implementation:**

- Participants in the pension plan are required to show certain financial information of the pension plan on the face of the financial statements. The amount of required information in the footnote increased significantly.

## ***GASB 68/75 – Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits***

### **Reporting for GASB 68/75:**

- Actuarial valuation required
  - One to two year lag between valuation date and report date
- Difference between future total assets and total liabilities as calculated by the actuary is called the “Net Pension/OPEB Liability”
  - or “Net Pension Asset” if expected assets exceed liabilities
- Net pension/OPEB liability/asset is shown on the balance sheet of the participant.

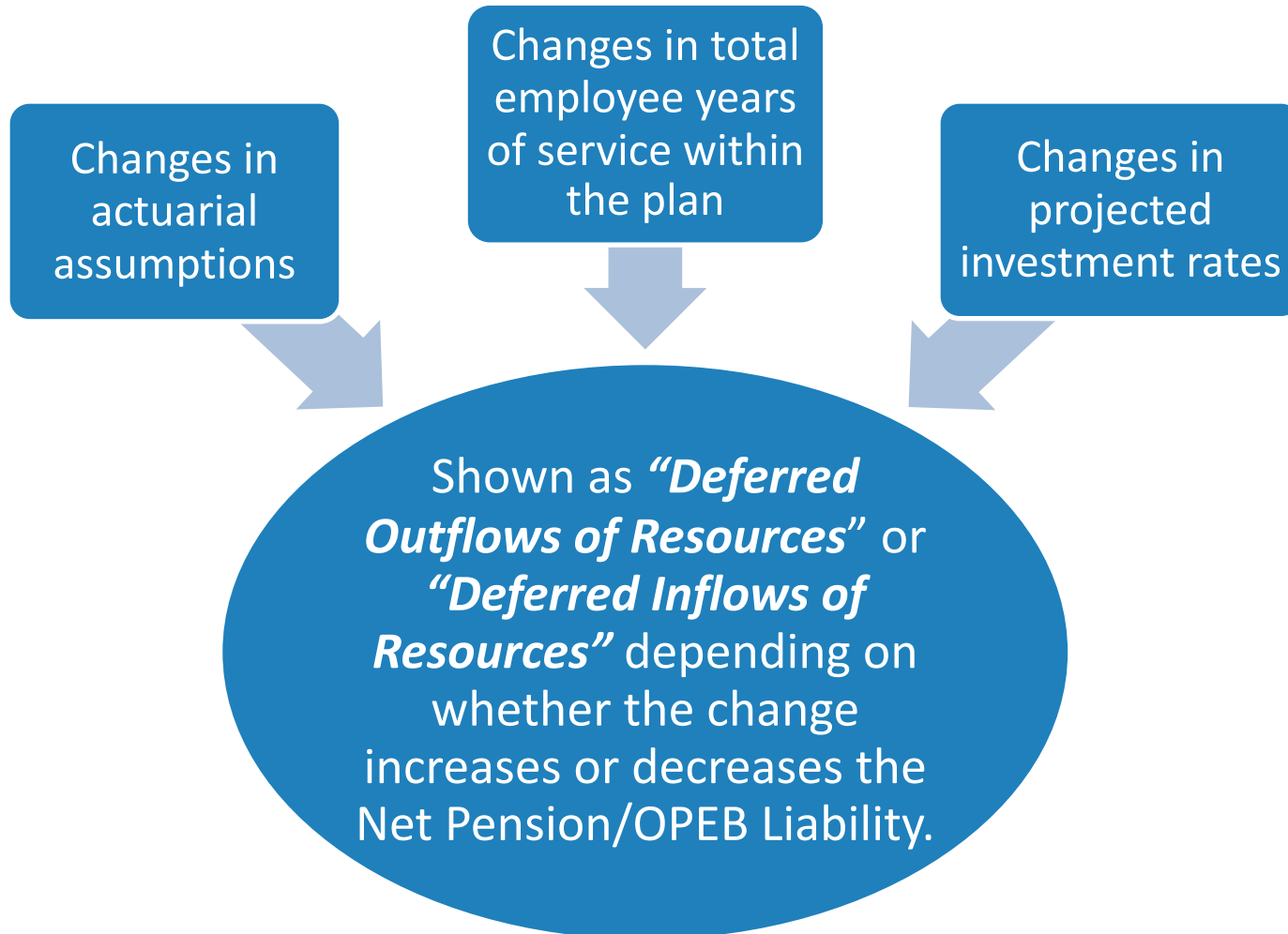
## ***GASB 68/75 – Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits***

### **Changes in the Net Pension/OPEB Liability:**

- GASB did not want the year-to-year change in Net Pension/OPEB Liability to show up entirely in the income statement
  - Could have potential for enormous adjustments each year based on actuarial assumptions/inputs

Changes related to changes in actuarial assumptions, changes in total employee years of service within the plan, and changes in projected investment rates are **shown on the balance sheet and amortized** rather than shown on the income statement

## Changes in the Net Pension/OPEB Liability:



*The Deferred Inflows and Outflows are amortized over a specified period and then the expense is shown in Pension/OPEB Expense on the income statement*

## **GASB 68/75 – Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits**

### **Single and Agent Employer:**

- Pension/OPEB plan is specific to that employer. All employees, contributions, and obligations relate to that employer.
  - *Example:* County pension plan, agent plan with FPPA

### **Cost-Sharing Employers**

- Many employers participate in one pension/OPEB plan. Contributions and pension/OPEB obligations are pooled between employers.
  - *Example:* PERA defined benefit plan, FPPA Statewide defined benefit plan

# ***GASB 68/75 – Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits***

## **Cost-Sharing Employers**

- Pooled assets and liabilities
  - Impossible to figure out what investments and obligations relate to each individual employer
- How to divide the total Net Pension/OPEB Liability among employers for financial reporting?
  - **Employer contributions for the year**

## Proportionate Share for Cost-Sharing Employers

### Proportionate Share for Cost-Sharing Employers

- Proportionate Share = Employer Contributions Divided by Total Employer Contributions
- Multiply the Net Pension/OPEB Liability, Deferred Outflows, and Deferred Inflows by the Proportionate share
  - These amounts are what goes on the financial statements
- Changes in proportionate share from the previous year
  - Shown as a deferred outflow/inflow and amortized

# ***GASB 68/75 – Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits***

## **Required disclosures in the footnote:**

- Plan Description
- Detail of benefits provided
- Detail of required contributions
- How the net pension/OPEB liability was measured
- Schedule of Deferred Inflows and Outflows
- Pension/OPEB Expense amortization schedule
- Actuarial assumptions
  - Inflation, discount rate, investment rate of return, mortality rates, etc
- Discount rate – and how a 1% change would affect the liability
- Pension/OPEB plan fiduciary net position



## Compensated Absences

# Compensated Absences

## Underlying thought process:

- **Vacation leave** and similar **compensated absences**, except sick leave, should be accrued when the benefits are earned and it is probable that the employee will be **compensated** through paid time off or cash
- **Sick leave** is accrued for payouts anticipated for reasons other than actual days taken for being sick
  - Accrued using either:
    1. Termination Payment Method
    2. Vesting Method

# *Compensated Absences*

## **Important Note:**

- Compensated absences is only for full accrual
- ✓ Not shown on governmental funds
- ✓ Shown on government-wide statements
- ✓ Shown on proprietary funds

## *Example: Accrued Vacation Calculation*

### **Vacation Leave Assumptions**

1. Employees earn one and one-half days of vacation per month.
2. Employees are required to have one year of service before they are allowed to take vacation time or be paid for accumulated vacation upon termination.
3. Vacation balances accumulated are paid at the employee's current salary rate.
4. Salary-related payments (benefits) are an additional 9.5% of vacation benefits paid.

## *Example: Accrued Vacation Calculation*

### Step 1:

**Determine vacation leave accumulated as of year end**

<u>Employee</u>	<u>Years Worked</u>	<u>Days Accumulated Vacation Balance</u>	<u>Daily Salary</u>
John	12 years, 1 month	42	\$150
Sally	5 years, 7 months	27	135
Jane	0 years, 8 months	12	100
David	0 years, 6 months	9	95

## Example: Accrued Vacation Calculation

### Step 2:

### Calculate the vacation leave liability

<u>Employee</u>	<u>Daily Salary</u>	<u>Probable Vacation Balance Payable</u>	<u>Vacation Liability</u>
John	\$150	42	\$6,300
Sally	135	27	3,645
Jane	100	12	1,200
David	95	0*	-
			<u>\$11,145</u>
	9.5% Pension related payments		<u>1,059</u>
	<b>Total Vacation Liability</b>		<b>\$12,204</b>

\*Estimated that it is probable that David will not meet the required one year of service

## ***Accrued Sick Leave***

- **Only accrued for anticipated payouts**
  - Time taken off due to a *contingent event* (getting sick, jury duty, etc) is not accrued for.
- **Based on reasonable expectations of payment**
  - Not just what would be paid if the entity ceased operations at the end of the fiscal year

## **Two Accrual Methods from GASB 16**

- 1. Termination Payment Method**
- 2. Vesting Method**

## *Termination Payment Method*

1. Sick leave is accrued as a liability when the benefit is earned and it is probable that the benefit will be **paid out** upon termination or retirement.
2. Accrual based on estimate from historical experience on sick leave payments
  - Requires historical data
    - ✓ GASB 16 suggests three to five years as reasonable time period for estimating historical data

## *Example: Termination Payment Method*

### **Sick Leave Assumptions**

1. Employees earn one-half day of sick leave per month.
2. There is no limit on the amount of sick leave that can be accumulated.
3. Sick leave taken is paid at the employee's normal pay rate.
4. Employees who terminate after ten or more years of service are paid for unused sick leave up to a maximum of 25 days at one-half of their most recent pay rates.
5. Salary-related payments (benefits) are an **additional 9.5%** of sick leave benefits paid.
6. The current **average daily pay rate is \$120.**
7. Employees currently employed by the governmental entity have a combined **29 person-years of service.**

## *Example: Termination Payment Method*

### Step 1:

Determine past employee sick leave payments at termination.

<u>Employee</u>	<u>Years Worked</u>	<u>Year of Termination</u>	<u>Sick Days Paid</u>
John	15	20X1	17
Sally	7	20X2	0
Jane	4	20X3	0
David	22	20X4	25
	<b>48</b>		<b>42</b>

## *Example: Termination Payment Method*

### Step 2:

Calculate the adjusted value of sick leave payments.

Current average daily pay rate	\$120
Sick days paid	×42
	<hr/>
	<b>\$5,040</b>
Termination payment rate	×50%
	<hr/>
<b>Adjusted value of sick leave</b>	<b>\$2,520</b>

## *Example: Termination Payment Method*

### Step 3:

Calculate the sick leave paid per year of service.

Adjusted value of sick leave	\$ 2,520
Years of Service (Historical Term Employees)	<u>48</u>
<b>Adjusted sick leave paid per year of service</b>	<b>\$ 53</b>

## *Example: Termination Payment Method*

### Step 4:

Calculate the sick leave liability.

Adjusted sick leave paid per year of service	\$ 53
Total years of service for active employees	x 29
	<hr/>
	\$ 1,537
9.5% Additional pension related payments	146
	<hr/>
<b>Total sick leave liability</b>	<b>\$ 1,683</b>

## *Vesting Method*

1. Sick Leave is accrued based on accumulation by active employees currently eligible to receive payments if employment was terminated, as well as other employees who are expected to become eligible in the future.
  2. Accruals for future eligibility should be based on assumptions concerning the probability that individual employees or classes of employees will become eligible to receive termination payments.
- No historical data required – based on active employees

## *Example: Vesting Method Calculation*

### **Sick Leave Assumptions (same as Termination Payment)**

1. Employees earn one-half day of sick leave per month.
2. There is no limit on the amount of sick leave that can be accumulated.
3. Sick leave taken is paid at the employee's normal pay rate.
4. **Employees who terminate after ten or more years of service are paid for unused sick leave up to a maximum of 25 days at one-half of their most recent pay rates.**
5. Salary-related payments are an **additional 9.5%** of sick leave benefits paid.
6. The current average daily pay rate is \$120.
7. Employees currently employed by the governmental entity have a combined 29 person-years of service.

## Example: Vesting Method Calculation

**Step 1: Determine the probability of employees with less than ten years of service will reach the ten year threshold.**

**Assume:**

- a. Fire department employees who have reached six years of service generally reach ten years of service.
- b. Police department employees who reach five years of service generally reach ten years of service

<b>Active Employee</b>	<b>Department</b>	<b>Years Worked</b>	<b>Pay Rate</b>	<b>Accumulated Sick Days</b>
John	Police	11 years, 2 months	\$140	63
Sally	Fire	8 years, 9 months	\$125	44
Jane	Fire	4 years, 7 months	\$115	12
David	Police	4 years, 1 month	\$100	7

## Example: Vesting Method Calculation

### Step 2: Calculate the sick leave liability

Note: Was considered “not probable” that Jane and David would reach 10 years.

<u>Active Employee</u>	<u>Accumulated Sick Leave</u>	<b>A</b> <u>Accrued Sick Leave (maximum allowed)</u>	<b>B</b> <u>Pay Rate</u>	<b>C</b> <u>Pay Rate %</u>	<b>(A x B x C)</b> <u>Sick Leave Liability</u>
John	63	25	\$140	50%	\$ 1,750
Sally	44	25	\$125	50%	1,563
					<u>\$ 3,313</u>
				9.5% Additional Pension related payments	<u>315</u>
				<b>Total sick leave liability</b>	<b>\$ 3,627</b>



## **Government-wide Statements vs. Fund Statements – Walkthrough of a CAFR**

# Outline of a CAFR

- Comprehensive Annual Financial Report (CAFR)
  - More extensive report than GASB requirements
- GFOA Certificate of Achievement based on CAFR reporting
- Three main parts:
  1. Introductory Section
  2. Financial Section
  3. Statistical Section

# Outline of a CAFR

## Introductory Section

- Letter of Transmittal
- GFOA Certificate of Achievement
- List of Principal Officers
- Organizational Chart

# Outline of a CAFR

## Financial Section

- Auditors' report
- Management discussion and analysis
- Basic Financial Statements
  - Including Notes to the Financial Statements
- Required Supplementary Information (RSI)
- Combining statements and individual fund statements
  - Primarily for nonmajor funds

# Outline of a CAFR

## Statistical Section

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic
- Operating

*Most data is presented for the most recent 10 years*

# Financial Section

## Management Discussion and Analysis

- Analysis of the financial condition and operating results of the government written by its *financial managers*
  - ◇ Both past and present activities
- Minimum Required Components:
  - Brief discussion of basic financial statements
  - Condensed financial information to support analysis
  - Analysis of overall financial position and results of operations
  - Analysis of significant variations between original and final budget amounts
  - Description of significant capital assets and long-term debt activity
  - Description of any currently known facts, decisions, or conditions that are expected to have a significant impact on the entity's financial position
- MD&A is reviewed for reasonableness and consistency,
  - ◇ It is **not audited**.

# Financial Section

- Basic Financial Statements
  - Government-Wide
    - ◇ Government-Wide Statement of Net Position
    - ◇ Government-Wide Statement of Activities
  - Fund Statements
    - ◇ Balance Sheet
    - ◇ Reconciliation to Statement of Net Position
    - ◇ Statement of Revenues, Expenditures, and Changes in Fund Balance
    - ◇ Reconciliation to Statement of Activities
    - ◇ Statement of Revenues, Expenditures, and Changes in Fund Balance
      - Budget to Actual
        - Budget is an essential part of government statements and the CAFR

## Financial Section

- Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
  - Only major funds shown in Basic Statements
    - ◇ Can only include General Fund and Major Special Revenue Funds
  
  - Major Fund Determination
    - ◇ General Fund is always considered a major fund
    - ◇ Based on size
    - ◇ Any other funds that are deemed to be important for separate disclosure
      - NOTE: Non-major funds are shown as one aggregated column in government-wide financial statements

# Example Balance Sheet

	General	Debt Service	Infrastructure Replacement	Nonmajor Governmental	Total
<b>ASSETS</b>					
Cash and investments	\$ 16,606,698	\$ 57,589	\$ 4,997,748	\$ 5,308,877	\$ 26,970,912
Receivables (net, where applicable, of allowances for uncollectibles)					
Property taxes	3,449,753	3,626,235	-	-	7,075,988
Accounts	575,891	-	6,200	88,234	670,325
Accrued interest	10,189	432	1,869	9,638	22,128
Electric utility tax receivable	107,513	-	-	-	107,513
Due from other governments	2,792,086	9,625,000	559,612	41,132	13,017,830
Note receivable	60,000	-	-	-	60,000
Due from other funds	261,899	-	-	-	261,899
Advance to other funds	958,565	-	-	-	958,565
Inventory	21,031	-	-	-	21,031
Prepaid items	707,640	-	-	-	707,640
<b>TOTAL ASSETS</b>	<b>\$ 25,551,265</b>	<b>\$ 13,309,256</b>	<b>\$ 5,565,429</b>	<b>\$ 5,447,881</b>	<b>\$ 49,873,831</b>

# Financial Section

- Basic Financial Statements (continued)
  - Proprietary Fund Statements
    - ◇ Statement of Net Position
    - ◇ Statement of Revenues, Expenses, and Changes in Net Position
    - ◇ Statement of Cash Flows
      - This is the only section of a CAFR where a cash flow statement is prepared
      - Presented based on the direct method
  - Fiduciary Fund Statements
    - ◇ Statement of Fiduciary Net Position
    - ◇ Statement of Changes in Fiduciary Net Position
  - Notes to the Financial Statements

## Financial Section

- Required Supplementary Information (RSI)
  - Will vary based on the requirements for the entity
    - ◇ Major fund budget to actuals
  - Reviewed for reasonableness, **not audited.**
- Supplementary Information (SI)
  - Will vary based on the type of the entity
  - Combining Schedules
    - ◇ Shows the roll up of all non-major funds into the basic financial statements
    - ◇ Contains brief descriptions of each non-major fund
  - Reviewed for reasonableness, **not audited.**
    - ◇ “In relation to” opinion

## Statistical Section

- Will vary slightly based on the type of the entity
  - GASB 44 addresses requirements for the Stats Section
- **Not audited.**
- Not subjected to auditing procedures applied to the audit of the basic F/S, no opinion is given on them

# Statistical Section

## 1. Financial trends

- Intended to assist users in understanding and assessing how a government's financial position has changed over time.

## 2. Revenue capacity

- Intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues

## 3. Debt capacity

- Intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt

## 4. Demographic and economic

- Intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments

## 5. Operating

- Intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition

# 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	Yes	No
Bond issuance	Cash/OFS	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)



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