



Colorado Government Finance Officer's Association

Governmental Accounting Immersion 2026



Introduction



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Plante Moran Governmental Practice



500+

Governmental Clients

750+

ACFR audits receiving GFOA's
Certificate of Achievement for
Excellence in Financial Reporting

250+

Staff dedicated to serving
governmental clients

75

Years serving government clients



Best Accounting Firm

As ranked by ColoradoBiz magazine in its 2021 Best of
Colorado Business Choice awards



PMGAP Services



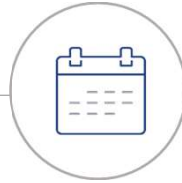
Audit Preparation

- Perform annual year-end close of accounting records
- Audit workpaper preparation
- Audit process facilitation
- External compliance reporting
- Deficit elimination plan creation
- New GASB implementation



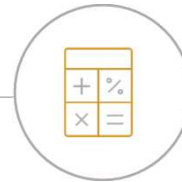
Budget

- Historical budget analysis
- Community education
- Budget process facilitation
- Budget renovation
- Budget document creation
- Budget monitoring and periodic internal reporting
- Budget amendment creation



Controllership

- Preparation of monthly bank reconciliations
- Monthly accounting reconciliations
- Perform month-end close of accounting records



Business process evaluation and transformation

Cash flow analysis and management

Chart of accounts redesign

Utility rate setting

Accounting functions: accounts payable, accounts receivable, payroll

Other special projects



Agenda Day 1

BEGIN	END	TOPIC
1:00 PM	2:50 PM	Governmental Environment, Authoritative Standards, Internal Controls
2:50 PM	3:00 PM	Break
3:00 PM	5:00 PM	Budget Concepts, Budget Process, and Budget Amendments



Agenda Day 2

BEGIN	END	TOPIC
8:00 AM	8:15 AM	Opening Activity
8:15 AM	9:00 AM	Issues Unique to Colorado Governments
9:00 AM	10:00 AM	Governmental Accounting and Intro to Financial Statements Part 1
10:00 AM	10:10 AM	Break
10:10 AM	11:10 AM	Governmental Accounting and Intro to Financial Statements Part 2
11:10 AM	12:00 PM	Fund Balance
12:00 PM	1:00 PM	Lunch
1:00 PM	2:00 PM	Closing the Year and Audit Prep
2:00 PM	3:00 PM	GASB Update (GASB 101, 103, and 104)
3:00 PM	3:10 PM	Break
3:10 PM	3:55 PM	Retirement
3:55 PM	4:40 PM	Single Audit
4:40 PM	4:55 PM	After the Audit
4:55 PM	5:00 PM	Closing Remarks



Overview of the governmental environment

- While a private business enterprise can be viewed as a single economic entity with one group of assets, liabilities and equity accounts that are normally reflected in a single set of financial statements, a governmental unit normally has several entities or funds, each of which has its own assets, liabilities and fund equities.
- A governmental unit is a combination of several distinctly different operations, each of which functions, and must be reported on, independently from any other fund.



Overview of 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).



Overview of 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.)



What is GASB?

- ☒ A. A rare incurable disease
- ☒ B. A group of accounting experts that create recommended accounting rules for State and Local Governments
- ☒ C. Standards setting body charged with establishing financial reporting standards for State and Local Governments
- ☒ D. B and C
- ☒ E. All of the above



Authoritative standards for state and local governments

Who Makes the Rules?

- The Governmental Accounting Standards Board (GASB) is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States.
 - They issue Statements, Interpretations, Technical Bulletins, Concept Statements and Implementation Guides defining GAAP for state and local governments since 1984. (There are currently 104 GASB Statements)
- State of Colorado



Internal Control and Segregation of Duties

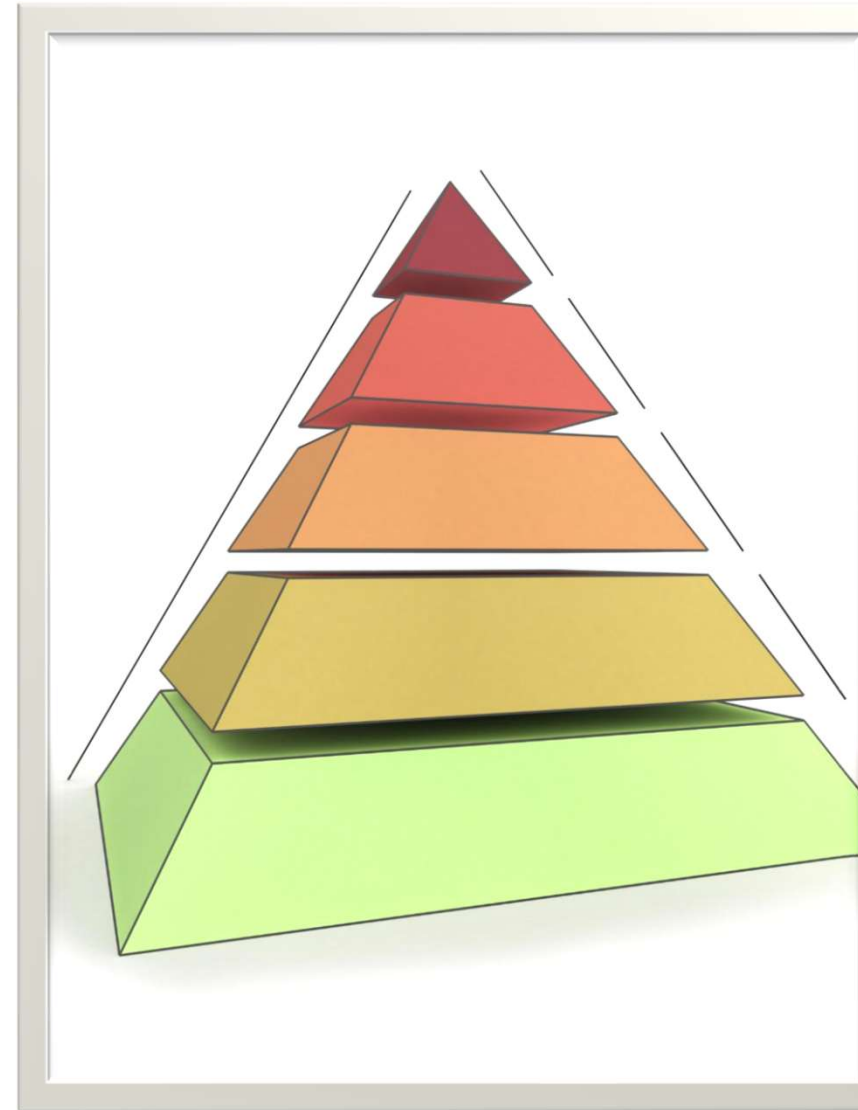


Fraud Triangle

Fraud Triangle consists of motivation, opportunity, and rationalization.

Understanding these elements helps prevent fraudulent activities.

Implementing controls addresses each aspect of the triangle.





Segregation of Duties

Key duties must be segregated to prevent conflicts of interest.

Different personnel should handle transactions and record-keeping.

Segregation reduces the risk of fraud and errors.



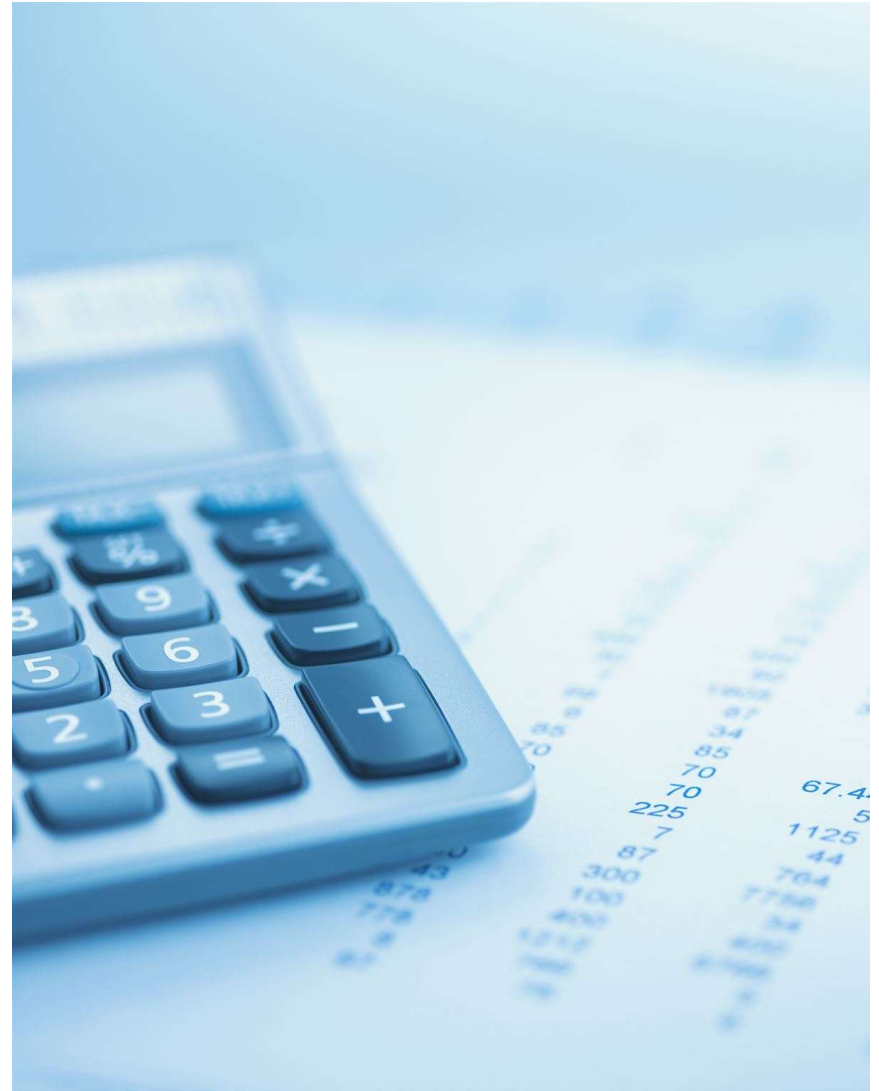


Importance of Reconciling Bank Statements

Regular bank reconciliations detect discrepancies promptly.

They ensure that cash records are accurate and up-to-date.

Bank reconciliation aids in fraud detection.





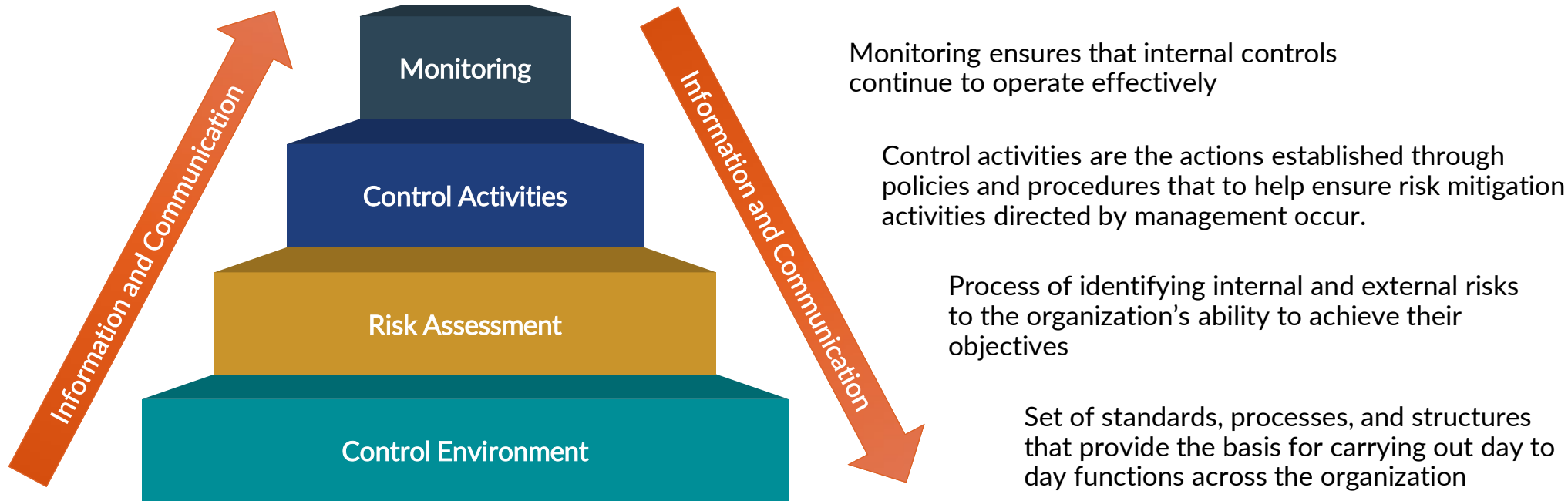
Importance of Internal Controls

- ① Minimize opportunities for errors and omissions
- ② Identify small issues before they aggregate into big problems
- ③ Reduce the risk of intentional fraud

Trust is not an internal control!

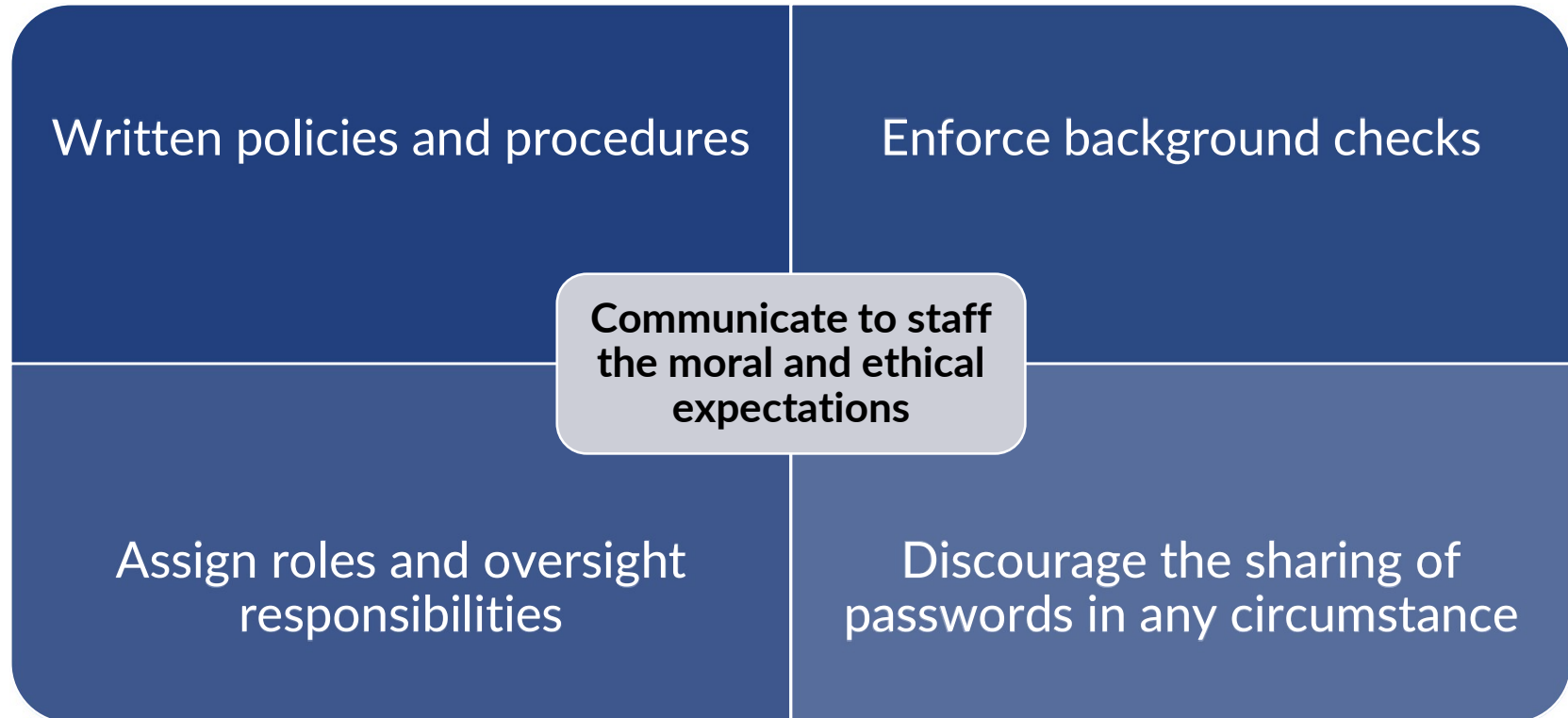


Internal Control Framework





Control Environment





Control Environment

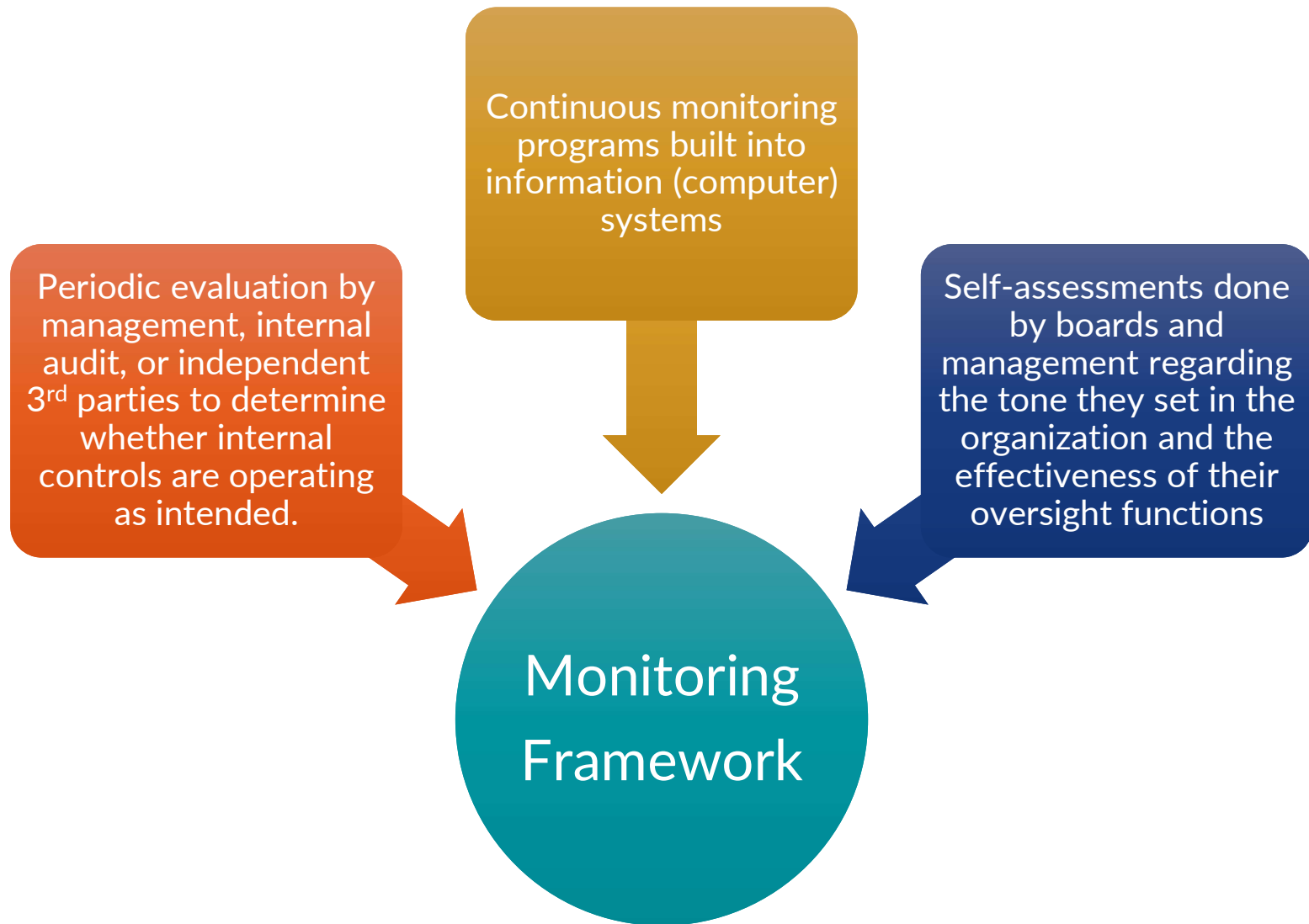
Goal: Create an environment with professional integrity

- Incorporate risk thinking into day-to-day business operations
- Shift the cultural mindset related to accountability and risk awareness





Monitoring





Audience Question:

What are some current challenges your own organization is facing when implementing internal controls?



Internal Control Activities



Types of Internal Controls

Preventative

Keep errors or irregularities from occurring

- ✓ Policies & procedures
- ✓ Segregation of duties
- ✓ Training
- ✓ System access
- ✓ Physical controls

Detective

Identify errors/irregularities after occurrence

- ✓ Account Reconciliations
- ✓ Management review
- ✓ Journal entry review
- ✓ Confirmations
- ✓ Performance reviews

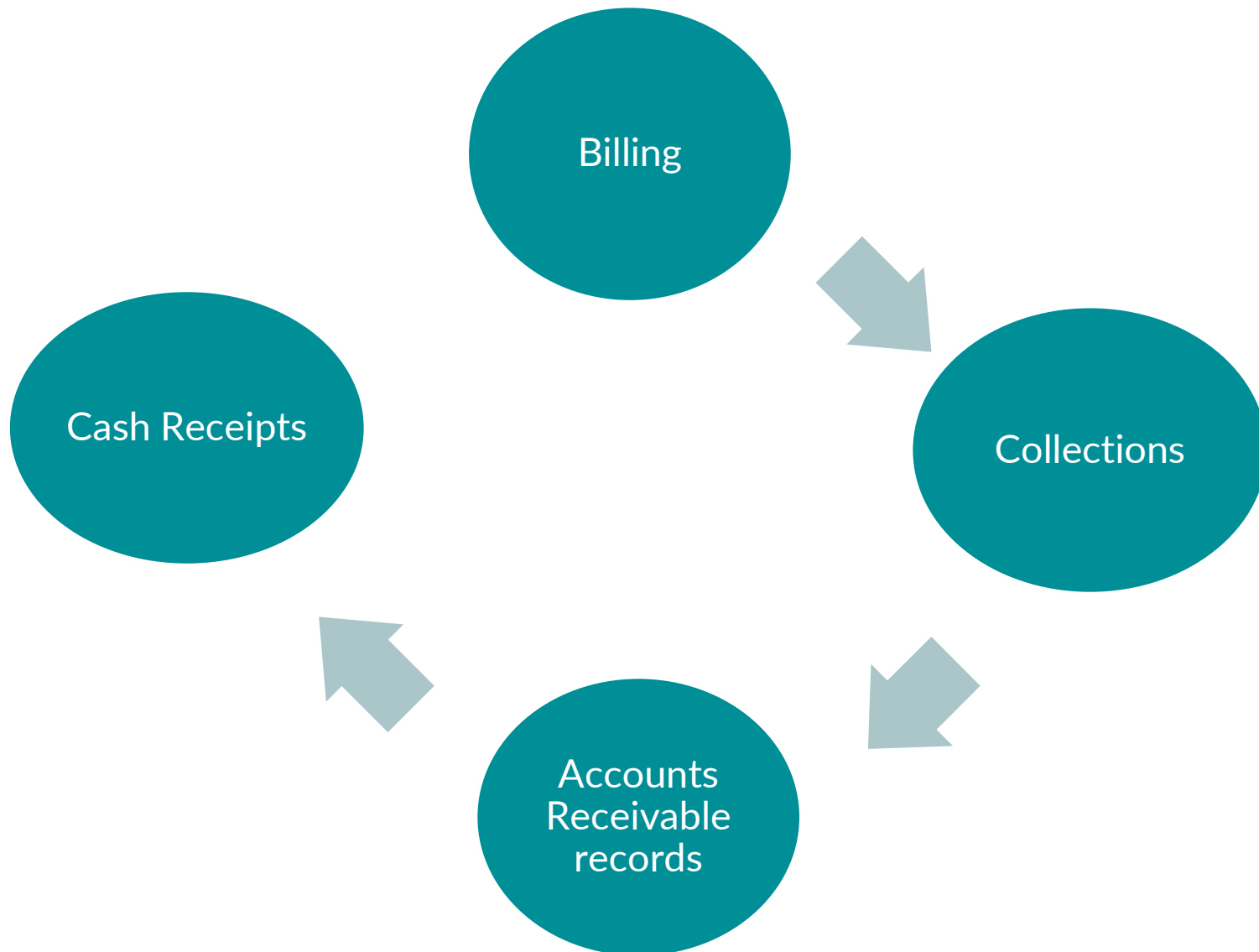
Corrective

Prevent recurrence of errors, remedy errors

- ✓ Disciplinary action
- ✓ Maintaining backup copies and master files



Revenue Cycle Controls





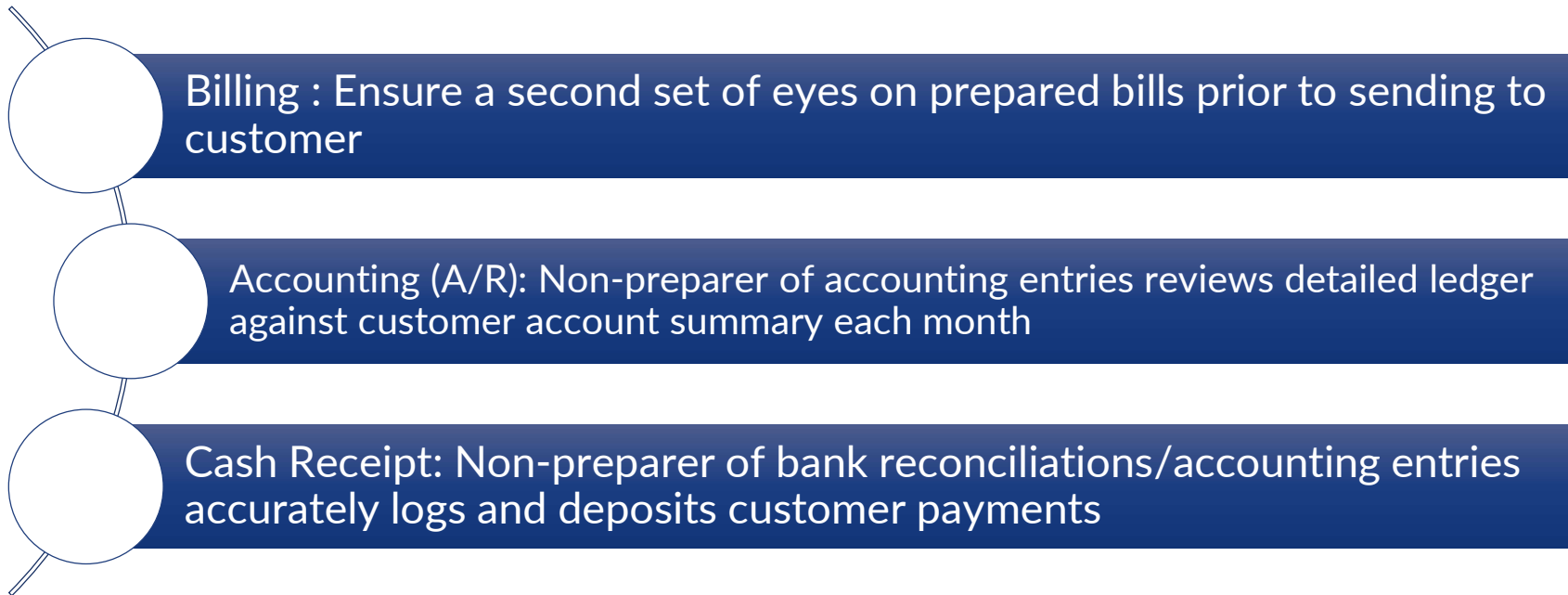
Revenue Cycle Controls

Common Controls:

Risks:



- Misstatement of revenue
- Inaccurate billing
- Loss or theft of assets





Revenue Cycle Controls

Small Government Billing and Cash Receipts Example:

	One person accounting dept	Two person accounting dept
Prepare bills based on customer account summary	Finance Director	Finance Director
Compare customer account summary to prepared bills	Chief Executive	Chief Executive
Open remittance	Chief Executive	Chief Executive
Prepare daily collection log	Chief Executive	Chief Executive or Finance Director
Prepare deposit slip	Finance Director	Accounting Staff
Make deposit	Chief Executive	Finance Director
Compare collection log and deposit documentation	Finance Director	Chief Executive or Accounting Staff



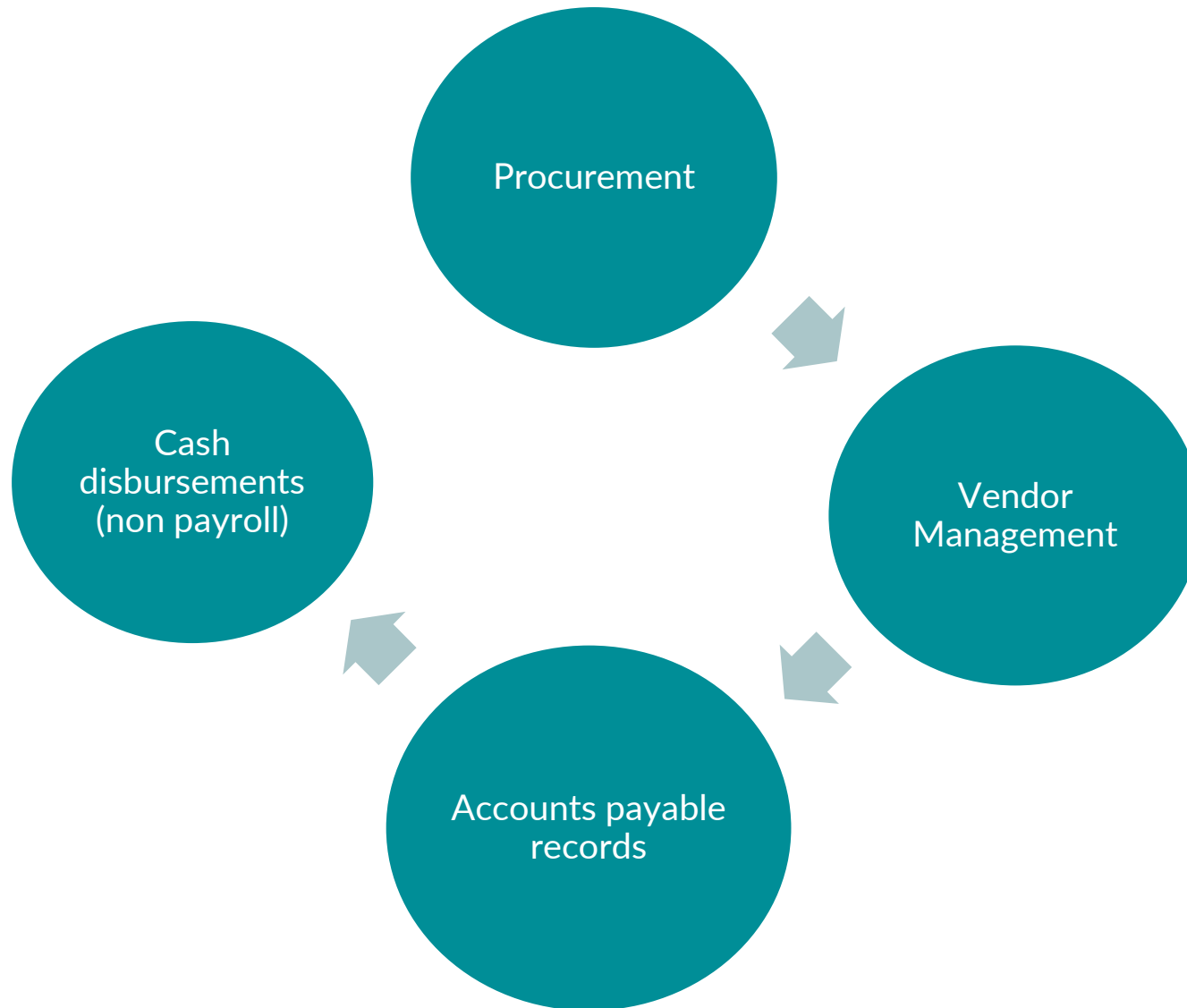
Revenue Cycle Controls

Small Government A/R Example:

	One person accounting dept	Two person accounting dept
Record deposits in ledger	Finance Director	Accounting Staff
Review detailed ledger against collection log and customer summary each month	Chief Executive	Chief Executive or Finance Director
Review delinquent accounts each month	Chief Executive	Chief Executive or Accounting Staff
Follow through with collection efforts	Chief Executive	Accounting Staff



Expenditure Cycle Controls





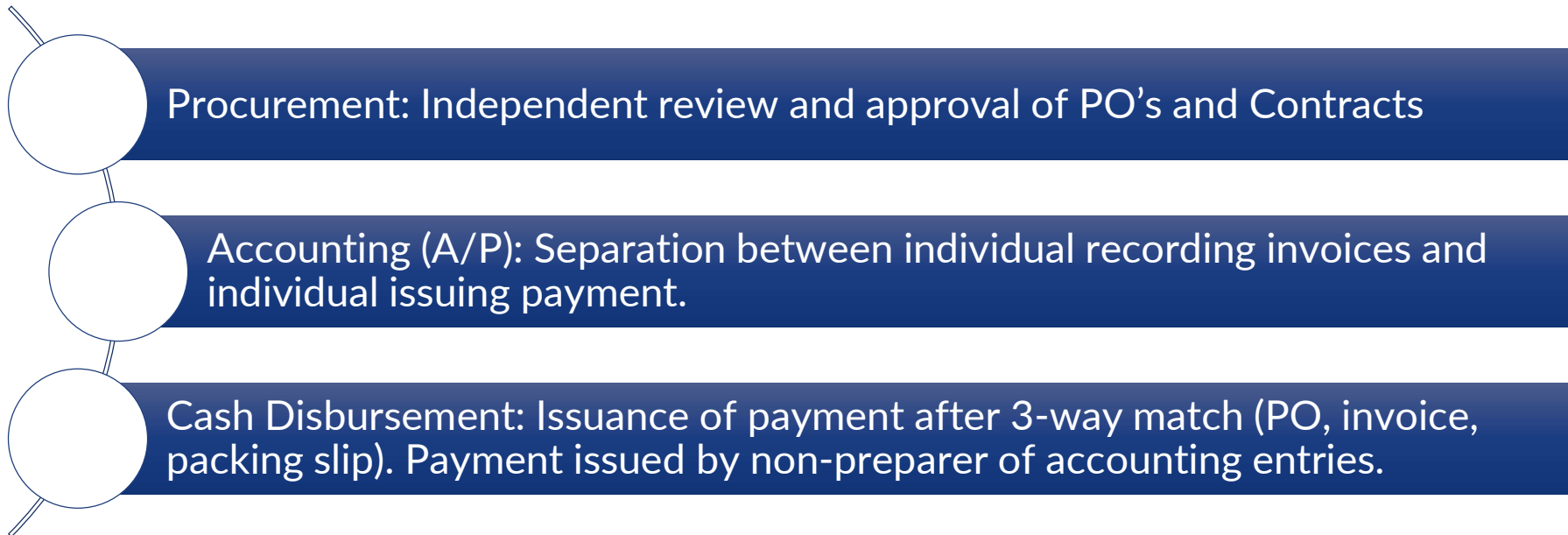
Expenditure Cycle Controls

Common Controls:

Risks:



- Misstatement of expense and/or accounts payable
- Loss or theft of assets





Expenditure Cycle Controls

Small Government Procurement and A/P Example:

	One person accounting dept	Two-person accounting dept
Determine the solicitation process based on policies, procedures, applicable regulations	Finance Director	Finance Director
Collect vendor paperwork and enter vendor into payment system	Chief Executive or council member	Accounting Staff
Issue purchase order or contract in compliance with applicable policies/procedures/regulations	Finance Director	Accounting Staff
Review and approve PO or Contract	Chief Executive	Finance Director
Receive/Open Invoice	Chief Executive	Finance Director
Perform a 3-way match between the purchase order, packing slip, and vendor invoice	Chief Executive	Finance Director



Expenditure Cycle Controls

Small Government Cash Disbursement (non-payroll) Example:

	One person accounting dept	Two-person accounting dept
Review documentation, prepare and sign check	Finance Director	N/A
Review documentation and prepare check	N/A	Accounting Staff
Review documentation and sign check	N/A	Finance Director
Second check signer reviews documentation and signs check	Chief Executive	Chief Executive
Mail Check	Chief Executive	Accounting Staff



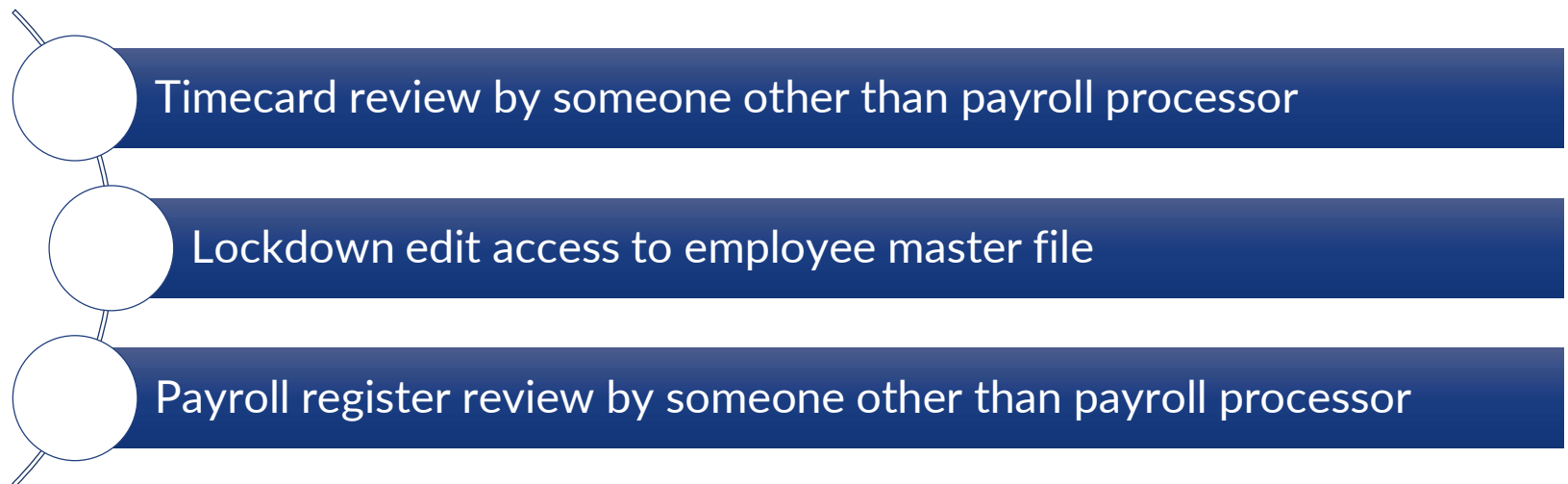
Payroll Controls

Common Controls:

Risks:



- Inaccurate pay is issued
- Unauthorized pay is issued
- Fraudulent diversion of employee pay





Payroll Controls

Small Government Payroll Example (assumes finance and HR are combined):

	One person accounting dept	Two-person accounting dept
Maintain personnel files	Finance Director	Finance Director
Review and approve time sheets (if applicable) and leave records	Employee supervisor	Employee supervisor
Review payroll summary for reasonableness	Finance Director	Accounting Staff and HR
Prepare checks or direct deposit, reconcile payments to payroll summary. Sign checks.	Finance Director	Finance Director
Review payroll summary and payments. Sign and distribute checks or approve direct deposit	Chief Executive	Chief Executive



Banking Controls

- Utilize only banking institutions as approved by Governing Body Resolution
- Update bank signers as quickly as possible when turnover occurs
- Setup automatic notifications for transactions over a certain threshold
- Utilize multi-factor authentication
- Don't use debit cards (use p-cards instead)
- Reconcile all bank accounts timely. Ensure a "second set of eyes" on all bank statements separate from the person completing the bank reconciliations
- Consider who has ability to create vendors within the system, access to check stock, ability to post journal entries, banking rights, etc.



Banking Controls

Small Government Banking Example:

	One person accounting dept	Two-person accounting dept
Open bank statements, or download from online banking	Finance Director and Chief Executive	Finance Director and Chief Executive
Send bank statements for reconciling	N/A	Finance Director
Reconcile Bank Statements	Finance Director	Accounting Staff
Detail line item review of bank reconciliations and bank statements (accessed independently*) each month	Chief Executive	Finance Director and Chief Executive
Roles:		
Bank account signer	Finance Director and Chief Executive	Finance Director and Chief Executive
Wire transfers under threshold	Finance Director	Finance Director
Wire transfers above threshold	Chief Executive	Chief Executive



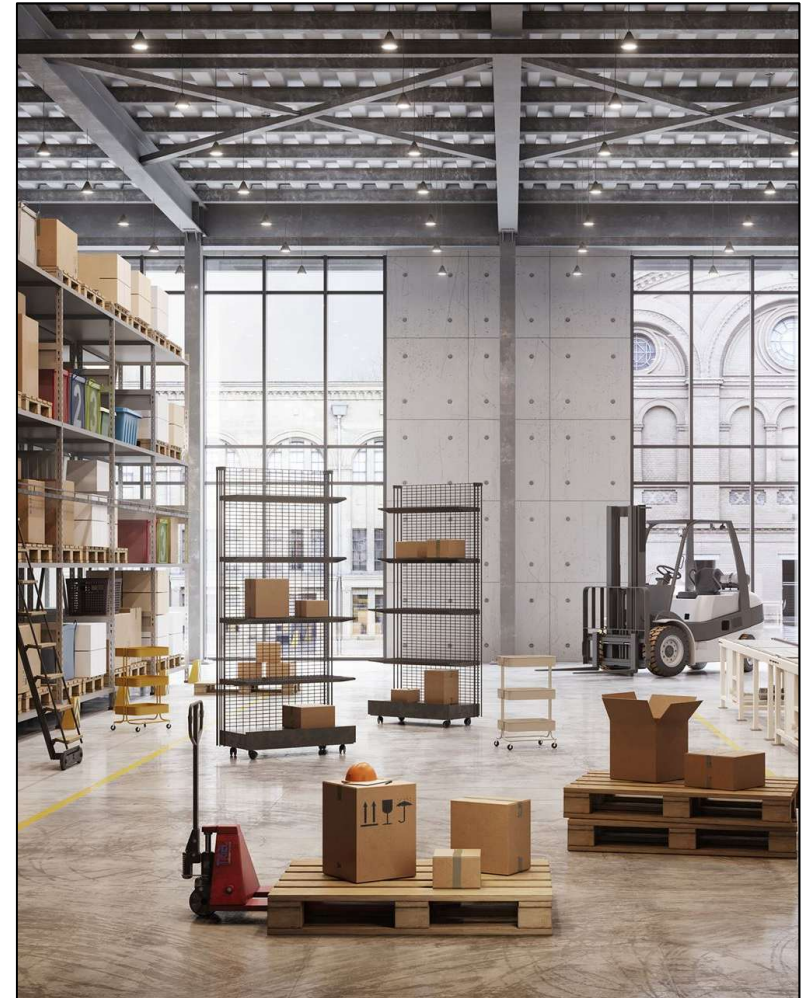
Asset controls

- Label and track inventory and physical assets, ensuring those purchased with federal funds are labeled as such
- Secure highly desirable and highly portable assets with physical barriers such as locked cabinets
- Track capital assets and ensure disposition and/or depreciation is accurately calculated and recognized in accounting records
- Physical inventory counts should be made once a year at a minimum. The count should be made by an independent staff member(s).



Physical Inventory Controls

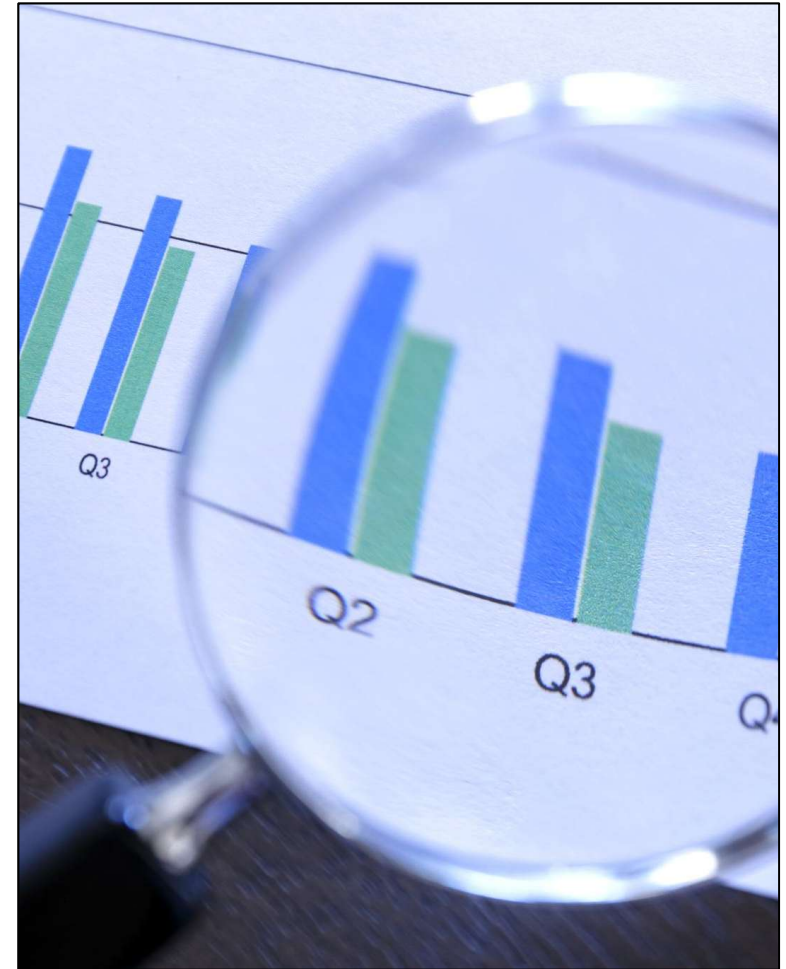
- Managing physical assets ensures accurate inventory records
- Verification processes prevent loss and theft of assets
- Regular audits of physical inventory enhance transparency





Financial Reporting Controls

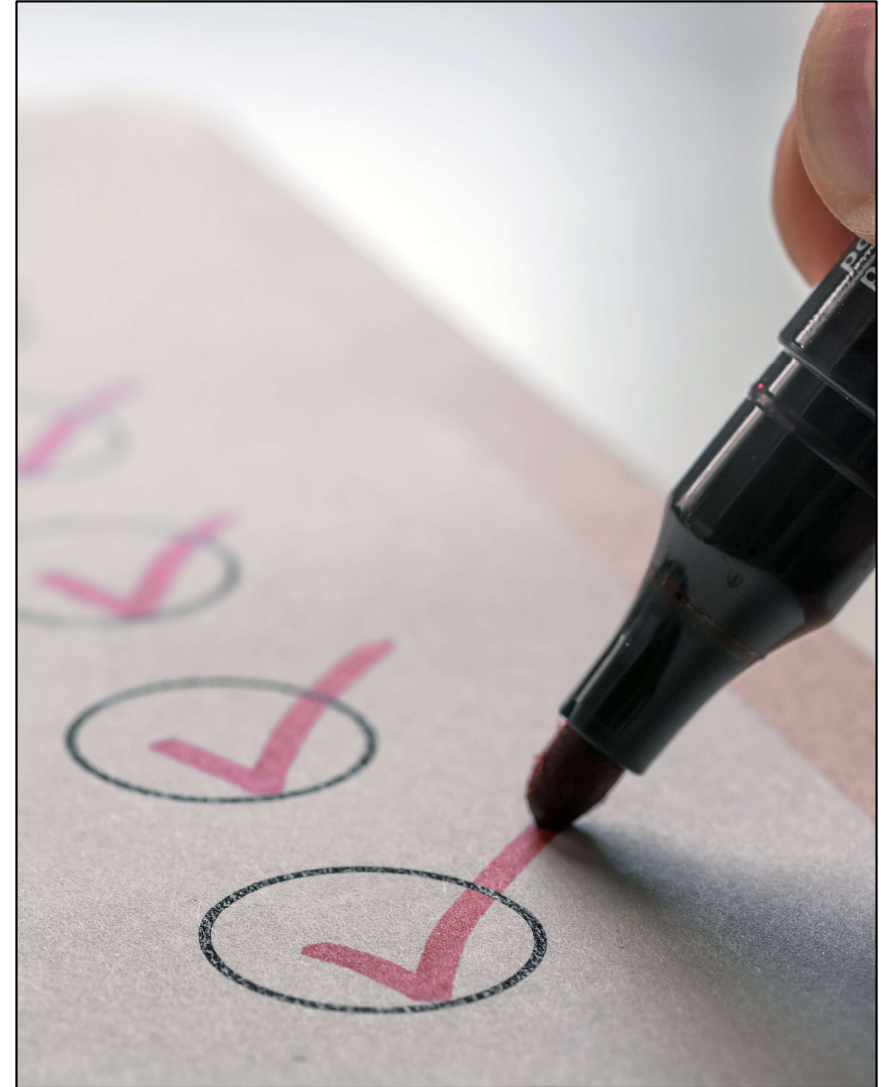
- Compare actual revenue and expenses to budget
- Independent approval of all manual journal entries
- Independent cross check between bank reconciliation, check register, and bank statement
- Reconcile balance sheet accounts timely
- Approve all additions and modifications to the chart of accounts
- Ensure account system access is limited and appropriate for the role





Monitoring Controls

- Monitoring controls ensure compliance and effectiveness
- Regular checks help detect and mitigate risks
- Continuous oversight is essential for accountability





Reconciliation Controls

- Reconciliation controls match records to identify discrepancies.
- Regular reconciliations are crucial for accurate financial statements.
- They help in detecting errors and preventing fraud.





Internal Control Support

- Establishes organization structure with defined roles and responsibilities
- Establishes formal policies and procedures that outline controls
- Hires individuals with appropriate skills and knowledge to assume specific roles and responsibilities outlined in the organizational structure
- Leaves “Paper-trail” for monitoring by management



Issues Unique to Colorado Governments



Budget reporting requirements

Local Governments

- Oct 15: Proposed Budget Presented to Council or Board
- December 15: Certify mill levy (adopt budget first)
- December 31: Adopt budget if there is no mill levy
- January 31: Budgets due to DOLA via eFiling
- Amend budget before December 31.

K12

- Propose budget by May 30th
- Adopt final budget and appropriation resolution by June 30
- Resolution needed to use beginning fund balance
- Review and amend budget prior to January 31
- After January 31 before June 30, adopt supplemental appropriation to spend additional funds

Budget Resources and Filing / Division of Local Government



Audit reporting requirements

Local Governments

- Audit is submitted to local government by its auditor June 30
- Last day to submit audit to the State Auditor is July 31
- Extensions may be requested to Sept 30th through the Office of the State Auditor

K12

- Audits submitted to school board by November 30th
- Audits submitted to the State Auditor and CDE by December 31st
- Extensions may be requested to February 28th through the Office of the State Auditor



TABOR - CO

Constitution art X, § 20

AKA Taxpayer Bill Of Rights

- ✓ State Constitutional Amendment passed by voters in 1992
- ✓ Requires voter approval for:
 - Tax increases
 - Multi Year Obligations (such as debt)
- ✓ Limits the amount of:
 - Revenue governments can collect and retain
- ✓ Requires governments to keep restricted emergency reserves
- ✓ Prohibits future amendments from modifying the constitution to the same extent





TABOR – Enterprises

- Enterprises are excluded from the definition of local government, does not fall under the TABOR provisions.
- Enterprise = self-supporting, government-owned business that receives revenue in return for the provision of a good or service.
- May receive up to 10 percent of its annual revenue from state and local government sources. Otherwise, must be financially independent of the state or any local government.
- Must have the authority to issue revenue bonds.
- Examples of enterprises include certain special districts (ie water districts), housing authorities, or enterprise funds within a government (ie the State Lottery fund).



TABOR – Enterprises

December 31, 2022

(14) TABOR Amendment

Article X, Section 20 of the Colorado Constitution (the TABOR Amendment) was added to the Colorado Constitution in 1992. It is a tax-limitation, spending-limitation, revenue-limitation, and debt-limitation amendment. By its terms, the TABOR Amendment applies to all "districts" defined to mean the "State or any local government, excluding enterprises." An enterprise is a (i) government-owned business, (ii) authorized to issue its own revenue bonds, and (iii) receiving under 10% of annual revenues in grants from all Colorado state and local governments combined. DHA meets this definition of an enterprise and, therefore, is exempt from the requirements of the TABOR Amendment.



TABOR - Voter approvals – Tax Increases

- TABOR requires a vote of the people for any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.



TABOR - Voter approvals – Debt

- TABOR requires **voter approval** in advance for a government to enter a **multi-fiscal year debt or financial obligation** without adequate present **cash reserves pledged irrevocably** and held for payments in **all future fiscal years**.
- Includes **all multi-year obligations** such as employment contracts, leases, etc
- To enter into a **multi year obligation without voter approval**, voters must do one of the following:
 - ✓ **Set aside a restricted reserve** for the full remaining amount of the multi-year obligation. Several school districts do this for multi -year superintendent contracts.
 - ✓ Include a **non-appropriation clause** in contracts clearly providing that the government has no obligation to continue the agreement in future years if the obligation is not appropriated



TABOR – Revenue Limits

The amount of revenue that can be retained each year by a local government in Colorado is limited according to specific growth factors, depending on the level of government.

- Cities and Towns: Local Growth in Real Property + Inflation
- School Districts: Growth in Enrollment + Inflation
- Counties: Local Growth in Real Property + Inflation
- State: Growth in Population + Inflation

These growth factors are applied to the **prior year's revenue**

Surplus tax revenue which the government might collect beyond the established revenue limit **must be returned to the taxpayers** of the district in the following fiscal year (unless voters approve that the taxing jurisdiction may keep the surplus revenue).



TABOR – Revenue Limits – Counties and Cities

Property tax revenue increases are limited to the total of:

Local growth + inflation

- Local growth = net percentage change in actual value from all real property...from construction of taxable real property improvements and additions to, minus deletion from, taxable real property.
- Inflation = % change in CPI for Denver-Boulder-Greeley area



TABOR – Revenue Limits – Voter approved revenue changes



Voter approved revenue changes are excluded from the definition, and do not fall under the TABOR revenue limit provisions.

Common examples include taxes, fees, or bond proceeds that voters have approved as exceptions to the limit



In some jurisdictions, voters have voted to exempt all revenue from TABOR limits, and in others, voters have chosen to exempt specific portions of revenue from TABOR limits.





Statutory Revenue Limit– 5.25% Property Tax

- Applies to most local governments except:
 - ✓ Home rule municipalities
 - ✓ Local governments that have held a successful vote to waive the limit
 - ✓ school districts and home rule towns, cities, and city & counties
 - ✓ an entity subject to and does not have voter approval to waive the Annual Levy Law “5.5%” Limit.
 - ✓ An entity that does not have voter approval to remove TABOR restrictions to retain the majority of revenue from property taxes
 - ✓ See DOLA’s website for more information: <https://dlg.colorado.gov/55-property-tax-revenue-limit>
- Limits property tax revenue growth to no greater than the prior year levied amount plus 5.25%*.

Which limit do governments use?

The **lesser** of the two (TABOR or 5.25% limit)

** Previously 5.5%, changed to 5.25% beginning property tax year 2025 (budget year 2026)*



TABOR - De-Brucing/De-Taboring

- “De-Brucing” or “De-Taboring” is a broad term that describes a large variety of ballot languages that voters can approve to remove some TABOR spending and revenue limits from a local government.
- 51 out of the 64 counties in the state, 230 out of the 274 municipalities, and 177 out of 178 school districts, have debruced in some manner
- In many cases, the same voter-approved ballot language might also waive the 5.5% (as of 2025 5.25%) Limit for the local government, but this depends on the ballot language.



TABOR – Emergency Reserve

Restricted reserve in general fund financial statements

- “To use for declared emergencies only, each district shall reserve ... 3% or more of its fiscal year spending excluding bonded debt service. Unused reserves apply to the next year's reserve.”
- "Fiscal year spending" means **all district expenditures and reserve increases except**, as to both, those for **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



What TABOR Does

Require voter approval on new taxes and debt

Limit growth of revenue
Require excess revenue be refunded to taxpayers

Require a 3% emergency reserve

Define language for fiscal ballot measures

What TABOR Does Not

- Require voter approval on new fees or assessments
- Limit growth of spending
- Define who receives refunds, or how much
- Treat state revenue limits the same as local government revenue limits



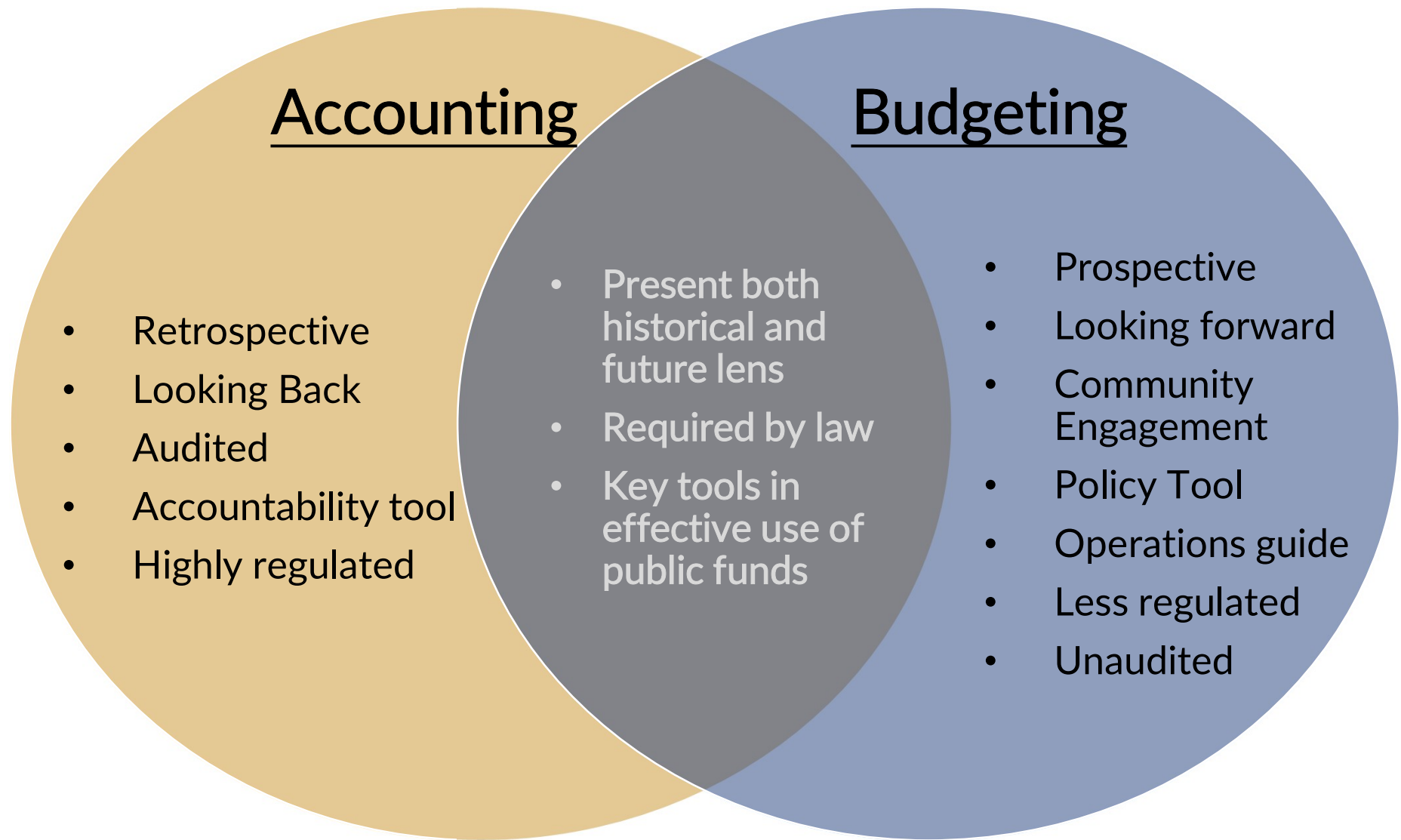
Budget Concepts and Fund Balance



Budget Concepts

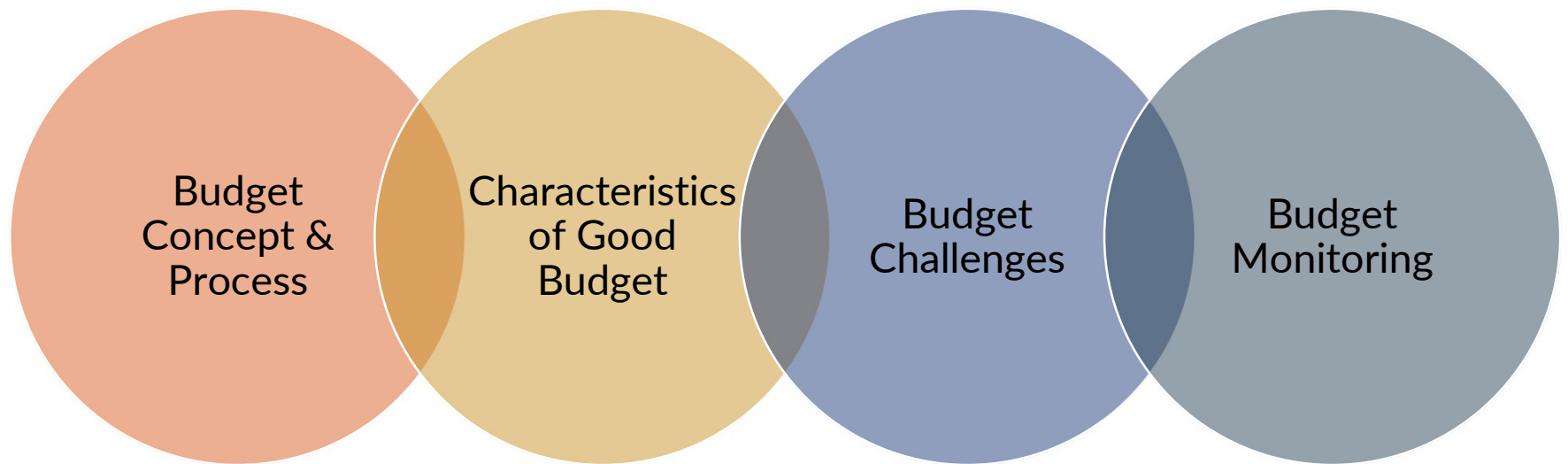


Purpose of Accounting and Budgeting in Government





Government Budgeting Topics





Budget Concept

Definition of a Budget

- A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them.

Budget Mission

- The mission of the budget process is to help decision-makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.



What is a budget?

1. A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them. It is intended to help decision-makers make informed choices about services and capital assets and give the legal approval for management to incur those expenditures
2. Adopting the budget is authorization to begin spending money.
3. An annual budget is required by CRS 29-1-103 (legal requirement) before a government can spend money.
4. Adopted by approval of resolution by the governing body.



What makes a good budget process?

A good budget process is characterized by several essential features.





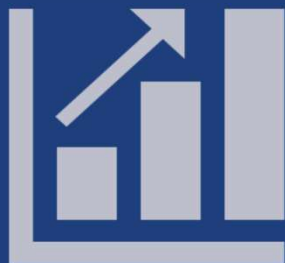
Focus on Results and Outcomes



Note key policy drivers for budgetary changes in an executive transmittal letter (for example prioritizing adding to a specific library collection in order to serve a specific need in the community)



Include key operational measures and descriptions of activities funded by a department or fund in budget document



For increases in spending, tie the increase to expected changes in outcomes for citizens (example: additional hours of operation, more accessible materials, etc)



Overview of the Budget Process



Budget Process



Preparation

Adoption

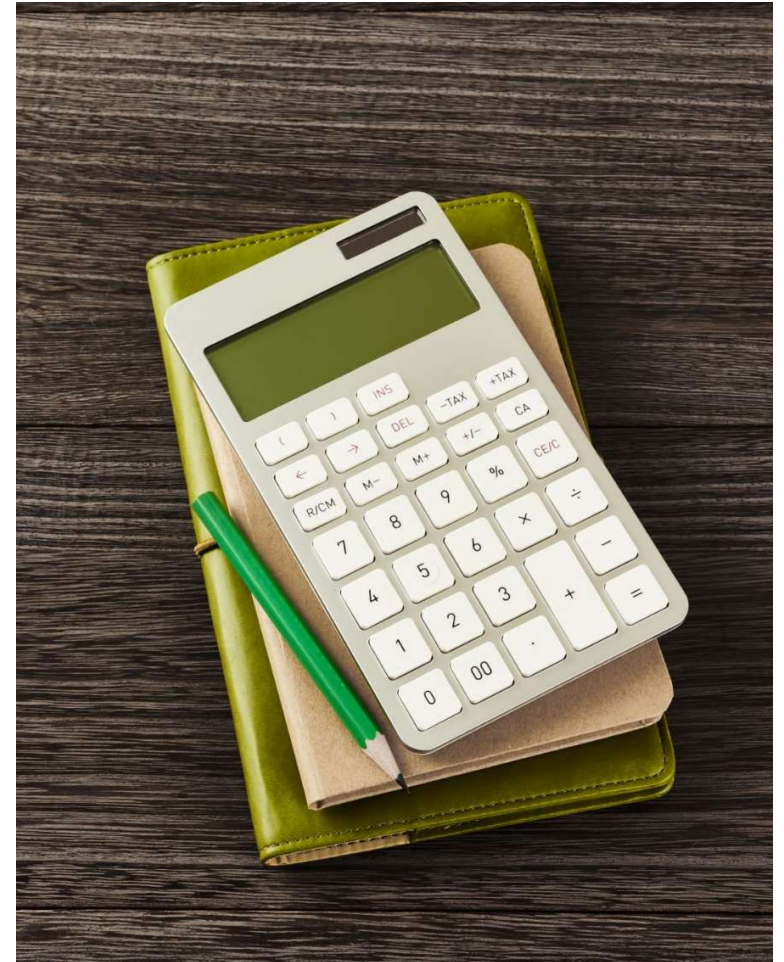
Execution /
Monitoring





Preparation Phase

- Who's budget is it anyway?
- Line item, cost center, fund
- Accounting basis
- Required data
- Transparency
- Contingencies
- Community Involvement



Adoption



LEGAL
REQUIREMENTS



THREAT OF A “SHUT
DOWN”



SELLING THE
BUDGET



Execution

Monitoring

- Periodic reporting (monthly or quarterly)
- Budget to actuals
- Budget to year-end forecast
- Budget approval process for FTE, Pay changes, contracts, and non payroll purchases

Amending





Detailed Budget Process



Preparation

Work by categories first, then by fund

Revenue

- Property tax
- State revenue
- Federal revenue
- All other revenue

Expenditures

- Wages & Fringes
- Capital outlay
- Debt
- All other expenditures



Revenue - Who, What, How?

Revenue

- Property tax (finance or treasury?)
 - Estimate based on prior year, or a full calculation?
- State Revenue (most likely finance)
 - Depending on year end, some estimates may or not be available from the State
- Federal Revenue (department heads/grant writers)
 - Is someone grant happy at your client? You should probably talk to them...
- All other revenue (most likely finance)
 - Charges for service – trends and expectations





Expenditures - Who, What, How?

Expenditures

- Wages and Fringes (finance or HR?)
 - Good ol' excel sheet or HR system?
 - Collective Bargaining Agreements
 - Vacancies? More people? Retirements?
 - Non-Union increases
 - Insurance & Fringes

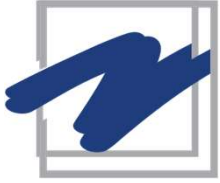




Expenditures - Who, What, How?

Expenditures

- **Debt**
 - Any new debt? Do we need to mockup an amortization schedule for an estimate?
 - Existing debt – look at the roll forward from the audit
- **All other expenditures**
 - Retirement increases
 - Any new services?
 - Other significant expenses (outside of capital)
 - Professional services
 - Facility costs (utilities, maintenance, insurance)
 - Other fixed costs (leases, installment purchases)



Expenditures - Who, What, How?

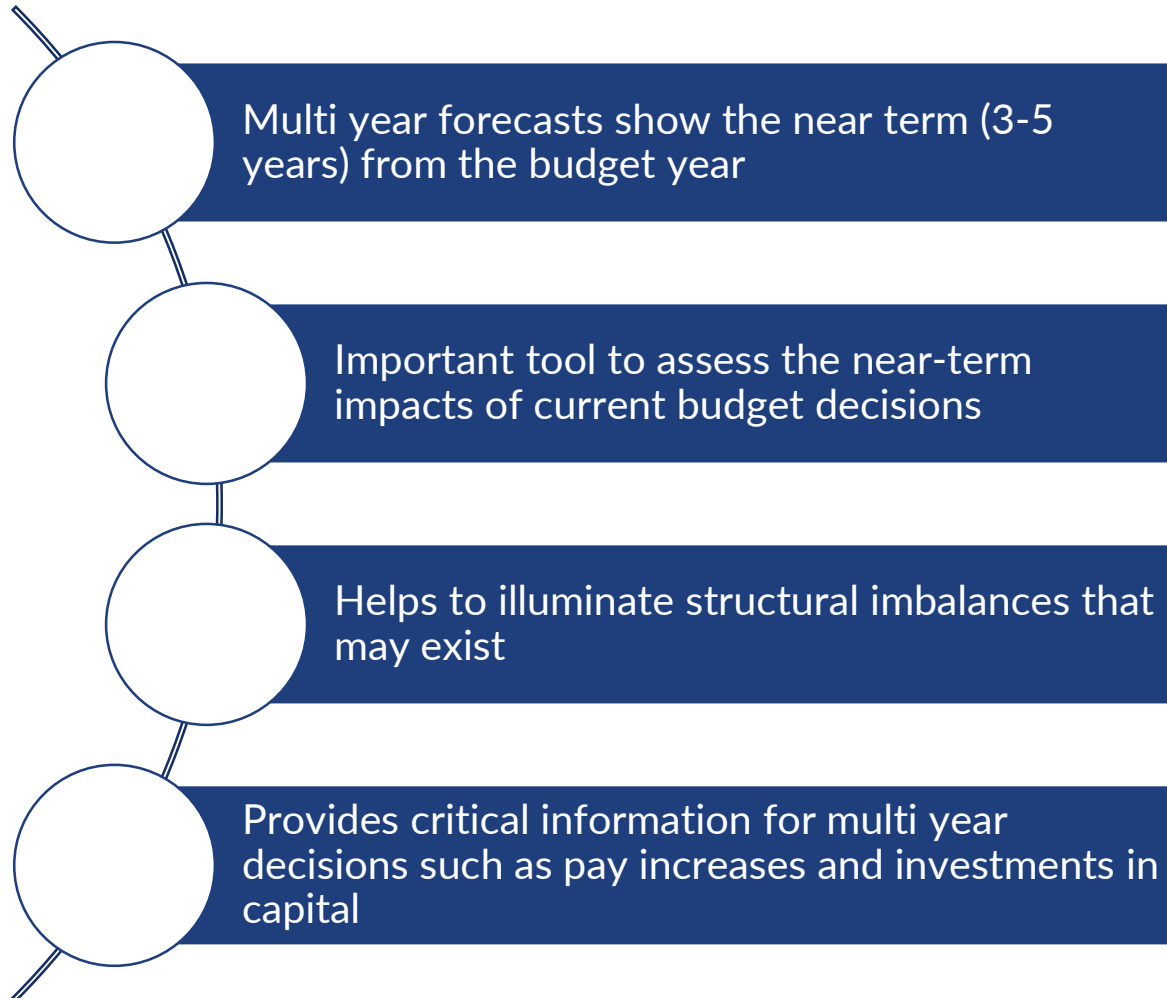
Capital Outlay

The five-year capital plan

- Got one? Fantastic –meet with facilities as part of the budget process
- Don't have one? Prioritize developing one with administration/dept heads.
- Start small if needed – a 3 year plan works well to start, aim for a plan that is 5+ years out in the future



Multi Year Forecast





The budget document/resolution

Required Data

- Must include prior year actual, current year estimates and proposed budget
- Must include fund balance, projected to the end of the budget year; this amount must be positive (the definition of a “balanced budget”)
- How does the governing body adopt the budget?
 - Line item/department/function?



Make sure everyone feels heard

- Include the budget process and periodic updates to the governing board throughout the process
- Useful strategies for engagement:
 - Community Surveys
 - Community stakeholder groups
 - Town halls
 - Budget workshops for governing body to ask questions and discuss without voting
 - Small meetings with 1-2 governing body members to understand priorities*

*ensure compliance with open meetings laws



Budget Requirements

Written Budget Message

Expenditures and Revenues classifying the expenditures by object and the revenues by source

Estimated Beginning and Ending Fund Balances

Three Years' Comparable Data: the prior fiscal year's actual figures; the estimated figures through the end of the current fiscal year; and the budget year's data

No Deficit Spending: No budget shall provide for expenditures in excess of available revenues and beginning fund balances. (29-1-103(2), C.R.S.)

Financed Purchase of an Asset or Certificate of Participation Agreement Supplemental Schedule.

Resolutions or Ordinances adopting the budget, appropriating resources for expenditure and certifying a mill levy (if property taxes are levied)



Budget Message Requirements

Describe the important features of the budget

Include a statement of the budgetary basis of accounting used in the budget (cash, modified accrual, or encumbrance)

Include a description of the services to be delivered during the budget year



Budget Calendar – Important Dates

Local Governments

- Oct 15: Proposed Budget Presented to Council or Board
- December 15: Certify mill levy (adopt budget first)
- December 31: Adopt budget if there is no mill levy
- January 31: Budgets due to DOLA via eFiling
- Amend budget before December 31.

K12

- Propose budget by May 30th
- Adopt final budget and appropriation resolution by June 30
- Resolution needed to use beginning fund balance
- Review and amend budget prior to January 31
- After January 31 before June 30, adopt supplemental appropriation to spend additional funds



Community Engagement

Budget Development process – Key Opportunity for Citizen Engagement

- Citizen engagement strategies will differ across different communities.
- Overarching principles and best practices:
 - Focus on 3-5 high level priorities
 - Plan and communicate opportunities for citizens to identify priorities early and often
 - Engage different modalities – localized in person work sessions, online surveys
 - Report out on results of engagement activities in public meeting



Budget Challenges

The following issues need to be taken into account in the tools and techniques that support budgetary practices.

- Managing the budget process and changes to budget practices
- Dealing with differences between governments, including size and legislative processes
- Adjusting for organizational structure and issues
- Election campaign issues
- Desire to have change or to prevent change
- Level of resources available for programs



Budget Challenges (cont'd)

- Available level of technical system and support
- Dealing with high (or low) expectations
- Legal requirements
- Ensuring citizen processes work
- The level of stakeholder understanding
- Accuracy of projections and assumptions



GFOA Distinguished Budget Presentation Award

Established in 1984, the [Distinguished Budget Presentation Awards Program](#) encourages governments to prepare budget documents that:

- Serve as a policy document
- Function as an operations guide
- Act as a financial plan
- Communicate clearly to stakeholders

To receive the award, a government must meet rigorous criteria aligned with both the National Advisory Council on State and Local Budgeting and GFOA's best practices



Budget Monitoring

Why

Legal Compliance

Internal Controls/Fraud

Performance Measures

Future Forecasting

Community Goals

How

System of Internal Controls followed by Community to assure compliance with laws

Create memo on changes and include balance sheet, revenue vs. budget, expenditures vs. budget. Review monthly, at the very least quarterly



Budget Amendments



Budget Amendments

- A budget amendment is a formal **legally adopted change** to the original adopted budget, or most recently adopted amendment.
- There can be zero or multiple budget amendments during a fiscal year depending on the organization





To amend or not to amend...



TIMING IS EVERYTHING

- Amendment requirements and restrictions exist in statute, ordinance, and policy, and can vary by client
- Political pressures may influence the decision of whether to amend if not required for compliance



To amend or not to amend...POLL

If you reported to a Council or Board, generally speaking what would your budget amendment approach be?

- A. Amend periodically to true up budget to forecasted actuals, even if not required
- B. Less is more – amend only when required
- C. Somewhere in the middle

Budget Statute Key Points

Type	Amendment Requirements	Supplemental Requirements	Other notable information
CO Municipality	Adopted no later than Fiscal Year End (12/31)	To spend revenues received > budget for any source OTHER than property tax mill levy	- Amending downward is called a Revision - TABOR Limits
CO K12	Board vote no later than Jan. 31	- Board vote no later than June 30. - Unanticipated revenue or emergency	Required funds: 15% unrestricted reserves



State Specific Budget Statutes

Colorado Muni

<https://dlg.colorado.gov/budget-information-and-resources>

Colorado K-12

<https://www.cde.state.co.us/cdefinance/fpphandbookfy20-21>



Budget Summary of Requirements

1. Has a budget been adopted?
2. Was a public hearing held on the budget?
3. Was all the necessary information in the budget document for the budgetary funds:
 - ✓ Actual prior year (both revenue and expenditures)?
 - ✓ Estimate of current year (both revenue and expenditures)?
 - ✓ Current year adopted budget (both revenue and expenditures)?
 - ✓ Amounts for contingencies if appropriate?
 - ✓ Beginning and ending fund balance?
 - ✓ Amount of fund balance (deficit) accumulated from prior years and the estimated surplus or deficit expected in the current year?
4. Is the budget balanced (including fund balance or deficit)?
5. Has the budget been amended when necessary if actual revenue is less than the budget estimated?



Summary of Budget Compliance Requirements

1. Has the budget been amended to allow expenditures in excess of the original appropriation?
2. If amending to include a new debt issuance, is the new debt entered into, if applicable, permitted by law?
3. Are expenditures equal to or less than amounts appropriated?
4. Are all expenditures authorized in the budget? (beware gross ups from G87 and G96!)

NOTE: In order to be in compliance, all questions should be answered “Yes.”



Budget Amendment Timing



Budget Amendments - Timing

- Budget amendments can be adopted more frequently than required during the year as new information becomes available, circumstances change, and needs change
- The cadence of budget amendments is unique to each government and at times, each fiscal year
- If the actual expenditures are forecasted to exceed the most recently adopted or amended budget, a budget amendment will be required in order to remain in compliance with statute.



Amending more frequently – Pros/Cons

Pros:

- More accurate picture of known variances from adopted budget
- More frequent check-ins to hold departments accountable for their spending

Cons:

- Administrative burden to amend budget more frequently than required
- May cast doubt on management's ability to accurately forecast



Amending less frequently – Pros/Cons

Pros:

- Less administrative burden

Cons:

- Could lead to a violation of budget laws and requirements if expenditures are over budget at year end
- Less accurate picture of financial position throughout the year
- One large budget amendment may be a harder “sell” than 2-3 smaller amendments



Budget Amendment Process



Budget Amendment Process

First know your budgetary level of control:

Is the budget adopted on a fund basis, department basis, line item basis or other?

- That is the level at which you are legally required to amend the budget
- Your appropriations act **SHOULD** state the level of adoption

You can always choose to amend each individual line item, but if adopted on a higher level, not required



Budget Amendment Process

Next, look at budget/actual results:

- Look at existing budget to actual
 - Is anything currently over budget?
 - Is anything *trending* over budget?
 - Get input from department heads, keep them accountable
- Has the Board/Council approved new expenditures that need to be included in the budget?



Budget Amendment Process

Preparing the amendment:

Again, based on the level at which the budget was adopted

Could be any of the following formats:

- Amend fund as a whole
- Amend department
- Amend account line item

Or other budgetary control format (example: function)



Budget Amendment Process

Example Amendment:

- Detailed line items of amounts being changed
- Approval level is department
- Shows impact to fund balance

			Current Amended Budget	Proposed Amendment	Proposed Amended Budget
General Fund (101)					
Revenues: Positive/(Negative) Change					
	101-001-574.000	STATE REVENUE SHARING		41,450	
	101-001-666.000	DIVIDENDS/RET. OF INS. PREMIUM		26,500	
Total Revenues			1,666,974	67,950	1,734,924
Expenditures: (Positive)/ Negative Change					
Administration					
	101-172-719.000	TRAINING EXPENSES		2,000	
Total Administration Dept.			343,400	2,000	345,400
Building & Grounds					
	101-265-930.001	BROUGHTON/REPAIR/MAINT/SUPPLIES		8,000	
Total Building & Grounds Dept.			108,700	8,000	116,700
Total Expenditures (all departments)			2,035,549	20,000	2,055,549
Net Revenues and Expenditures			-368,575	47,950	-320,625
Combined General Fund:					
Audited Beginning Fund Balance at July 1, 2022			1,242,299		1,242,299
Budgeted Ending Fund Balance at June 30, 2023			873,724		921,674
Fund Balance as a % of budgeted expenditures			42.92%		44.84%



Budget Amendments – Best Practice

- The need for a budget amendment should be assessed at least quarterly to ensure timely updates to the council/board approved budget
- Budget amendments should be proposed if there is a major change in revenue or expenditure
- A narrative of amendments is helpful, and in some cases required, to governing body when presented



CGFOA Immersion

Day 2



plante moran

Audit. Tax. Consulting.
Wealth Management.

100^{years}



Chart of accounts



Structure and Flexibility

Consistency and comparability

Adaptability to change

Support for decision-making

Regulatory compliance





Standard Chart of Accounts

- Public K12 institutions are required to use the [Colorado Department of Education Chart of Accounts](#).
- Other local governmental units are not required to follow a uniform chart of accounts, but may find following the GFOA's classification of accounts helpful.

Resource: [State of Colorado Financial Management Manual for Local Governments](#)



Federal Government Chart of Accounts

U.S. Standard General Ledger (USSGL)

- ✓ Mandatory for federal departments and agencies
- ✓ NOT required for state or local governments

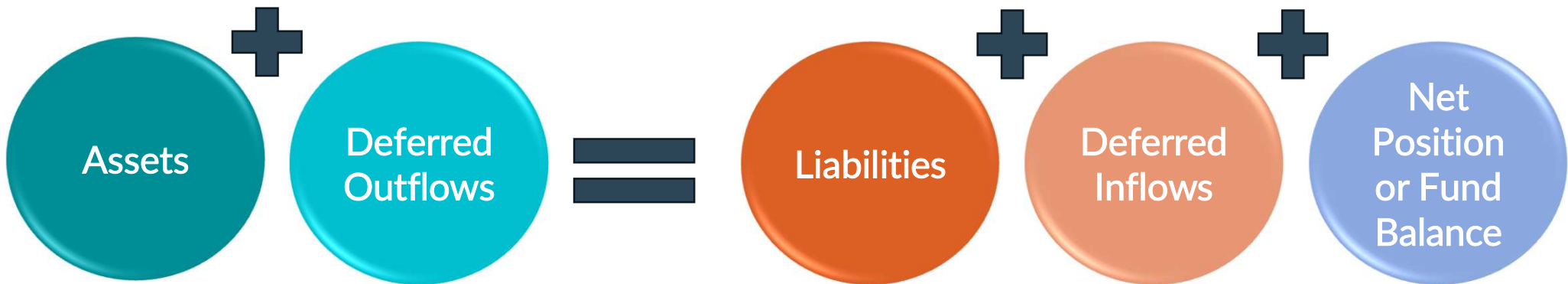
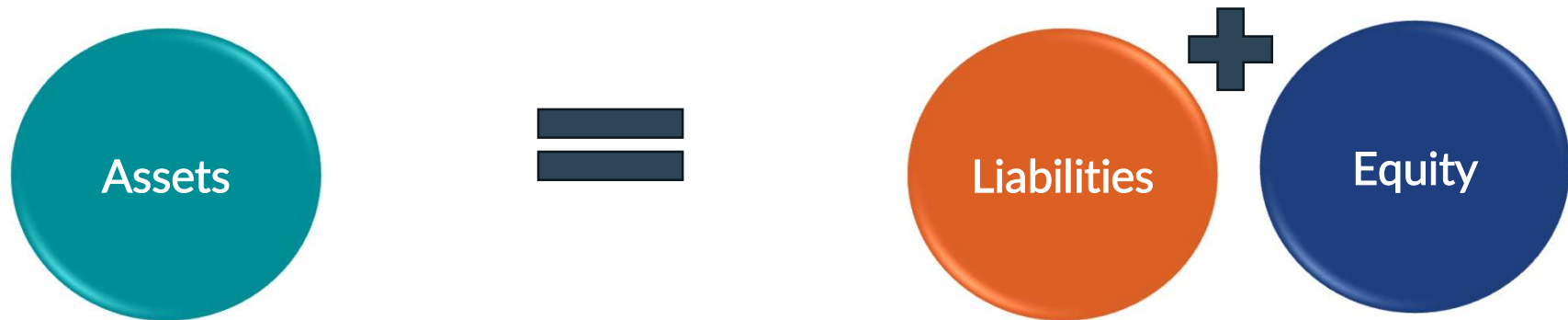
Caveat: local governments receiving certain types of federal funds (FEMA, HUD, etc) may need to align relevant parts of their COA with federal reporting requirements.



Accounting Fundamentals



Accounting Formula





Journalizing Transactions

Accounts with Debit Balances:

- Assets
- Expenditures



Accounts with Credit Balances:

- Liabilities
- Revenue
- Fund Balance





Posting to the General Ledger

- Include the correct date
- Brief explanation of the transaction
- Leverage Subledgers where possible
- Each entry must balance by fund
(credits = debits)



Adjusting Entries

- Entries for transactions that cannot be entered through a module into the sub-ledger
 - Deferrals
 - Accruals
 - Depreciation if you do not have a capital asset module
- Occasional Correcting entries that cannot be completed through a subledger



Governmental Accounting



Fiscal Accountability in Governmental Accounting



Government accounting prioritizes fiscal responsibility over profit-driven goals.



Distinct financial objectives guide different governmental activities.



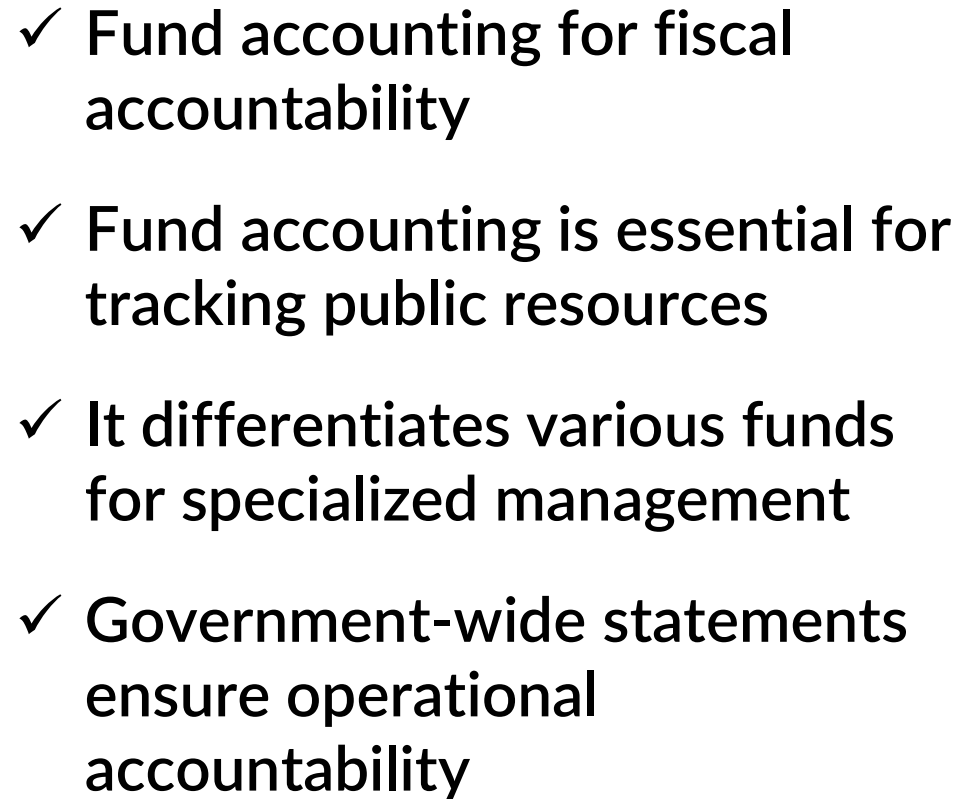
Governmental Accounting – Why?

GASB White Paper: [Why Governmental Accounting and Financial Reporting Is – and Should Be – Different.](#)

[The needs of users of governmental financial reports are different from those of business.](#)

Key Differences:

- ✓ Voluntary vs Involuntary Revenue
- ✓ Legal budgetary obligations
- ✓ Longevity
- ✓ Transparency and Accountability





Key Terms

Fund	Earned
Government	Incurred
Budget	Asset
Actuals	Liability
Current	Measurement Focus
Long-Term	Basis of Accounting



Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.



The Index to Financial Reports:

Types of Funds

Type	Name
Governmental Funds	General Fund Special Revenue Funds Debt Service Funds Capital Project Funds Permanent Funds
Proprietary Funds	Enterprise Funds Internal Service Funds
Fiduciary Funds	Trust Funds (Pension and Other Employee benefit, Investment, Private Purpose) Custodial Funds
Component Units	



Governmental Funds

General Fund

The General Fund accounts for all revenue and expenditures that are not accounted for elsewhere and is usually the operating fund of a governmental entity.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. In many cases, the use of the separate fund is mandatory. GASB 54 changed the definition slightly and requires that to be a SRF a substantial portion of revenues must be from a committed or restricted external source.



Governmental Funds Con't

Debt Service Funds

Debt Service Funds are used to account for the annual payment of principal, interest and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund. In many cases, the use of Debt Service Funds is optional.

Capital Projects Funds

Capital Projects Funds are used to account for the development of capital facilities other than those financed by an Enterprise Fund. In many cases, the use of Capital Projects Funds is optional.

Permanent Funds

Permanent Funds are used to account for resources that are permanently restricted – such as a cemetery perpetual care fund.



Proprietary Funds

- **Enterprise Funds** - Enterprise Funds are used to account for activities that provide a good or service to citizens that is financed primarily by a user charge for the provision of that good or service.
- **Internal Service Funds** - Internal Service Funds are set up to account for goods and services provided by designated departments on a fee basis to other departments and agencies within a single governmental unit.



Fiduciary Funds

Fiduciary funds

- Fiduciary funds include only those activities where the government acts as a trustee or agent for organizations outside the government.
- Fiduciary funds should not be used to hold assets that may be used to support this government's programs.



Fiduciary Funds

- Pension and Other Employee Benefit Trust Funds
- Investment Trust Funds
- Private Purpose Trust Funds
- Custodial Funds (Agency Funds)



Component Units

- **Component Units** – a component unit is a legally separate organization for which the primary government (the main government entity) is financially accountable, or whose relationship with the primary government is so significant that excluding it would be misleading.



Basis of Accounting

Full Accrual Basis

- Revenue is recorded in the accounts at the time it is earned and measurable.
- Expenditures are recorded when the liability for them is initially incurred.

Modified Accrual Basis

- Revenue is recorded when it is earned, measurable, and available. This generally means that revenue is recorded if received within 30 to 60 days from year-end.
- Expenditures are recorded on an accrual basis with some exceptions



Basis of Accounting

The basis of accounting for each of the various funds are:



Full-accrual Basis

Enterprise Funds

Internal Service Funds

Fiduciary Funds

Component Units



Modified-accrual Basis

General Fund

Special
Revenue Funds

Debt Service
Funds

Capital Projects
Funds

Permanent
Funds

Component
Units



Modified Accrual

Capital assets

- Purchases – recorded as expenditures
- No depreciation
- Proceeds are income regardless of book value

Debt

- Proceeds from issuance of debt recorded as inflow (other financing sources)
- Principal payments recorded as expenditures
- Interest expensed only when due and payable

Revenue Recognition

- Only recorded if earned, measurable, and available



Modified Vs Full Accrual Accounting

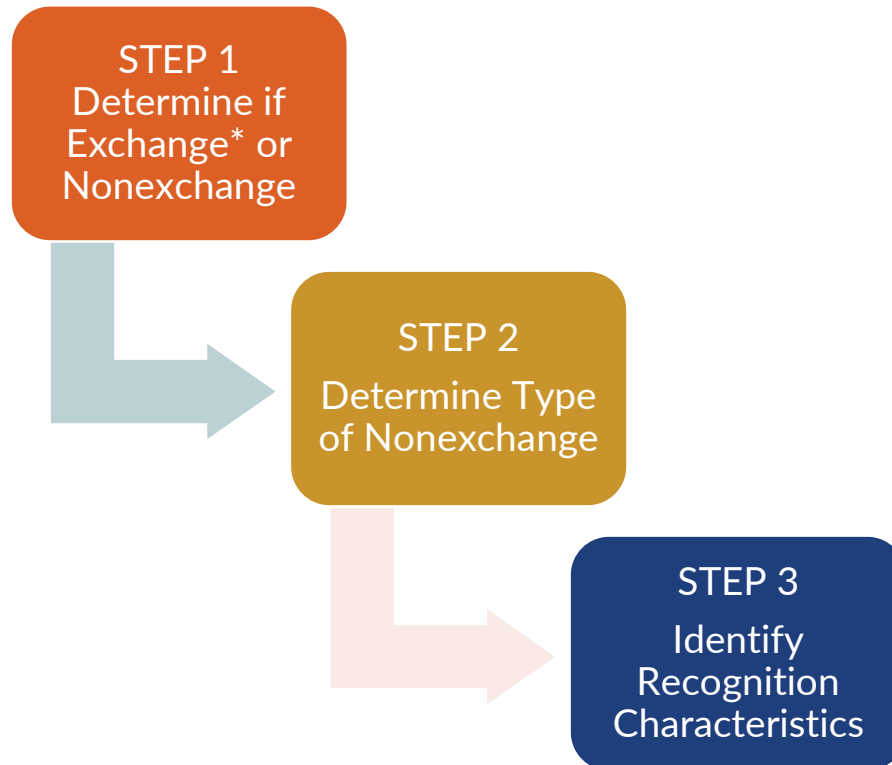
	Modified	Full
Capital Assets	Purchases = expenditure No depreciation Sale proceeds are income	Recognize cost of asset and depreciate over useful life Recognize gain/loss on disposal of assets
Long Term Debt	Proceeds from issuance of debt recorded as inflow (other financing sources)	



Revenue Recognition



Basic Revenue Recognition Process



*Four Types of
Nonexchange
Revenues:*

1. Imposed
2. Derived
3. Voluntary
4. Government Mandated

*Exchange revenue – See Statement 62, paragraph 23



Exchange vs. Nonexchange

Exchange transaction – Each party receives and gives up essentially equal values

Exchange-like transaction – The values exchanged, though related, may not be: (1) quite equal, or (2) direct benefits may not be exclusively for the parties to the transaction. Exchange characteristics are strong enough to justify treating as an exchange.

Non-exchange transaction – A government gives or receives value without directly receiving or giving equal value.



Exchange/Nonexchange Transactions

Some transactions may be difficult to determine if exchange or nonexchange transaction:

Research grants (GASB Codification N50.701-1)

- Patent rights
- Rights to exclusive use of the research

Special assessments

- City-wide garbage special assessment versus
- Private lake special assessment



Four Classes of Nonexchange Revenue

- **Derived** – assessments imposed by governments on exchanges
Sales Tax, personal and corporate income tax
- **Imposed** – assessments imposed on acts committed or omitted by the provider
Property Tax, penalties and fines
- **Government mandated** – receiving government has no choice (required to receive resources)
- **Voluntary** – receiving government does have a choice



Eligibility requirements



Eligibility requirements **do** affect timing of recognition!



Eligibility requirements are conditions established by enabling legislation or the provider that are required to be met before a transaction (other than the provision of cash or other assets in advance) can occur



Until requirements are met, the provider generally does not have a liability, the recipient generally does not have a receivable, and expenses and revenues for resources transmitted in advance should not be recognized until those eligibility requirements are met



Unearned Revenue

Cash is received before it is earned

Examples include:

- Advance funds received for a grant (provided before eligibility requirements other than time requirements – liability; if just awaiting time requirements – deferred inflow)



Unavailable Revenue

Revenue has been earned, but the funds are unavailable (not received within the client's collection period – generally 60 days)

Common GASB 34 adjustments (Unavailable Revenue)

- Grant Reimbursements
- Special Assessments (Municipal)
- Property Taxes



Unearned vs Unavailable Revenue

Unavailable Deferred Inflows:

Recording on governmental fund statements at year-end:

DR: Accounts Receivable

CR: Deferred Inflow – unavailable revenue

There is no revenue recorded in the fund

A GASB 34 adjustment is necessary to show the amount as revenue on the government-wide statements

Unearned Revenue:

No GASB 34 adjustments required (recording on fund statements and government-wide statements is the same)

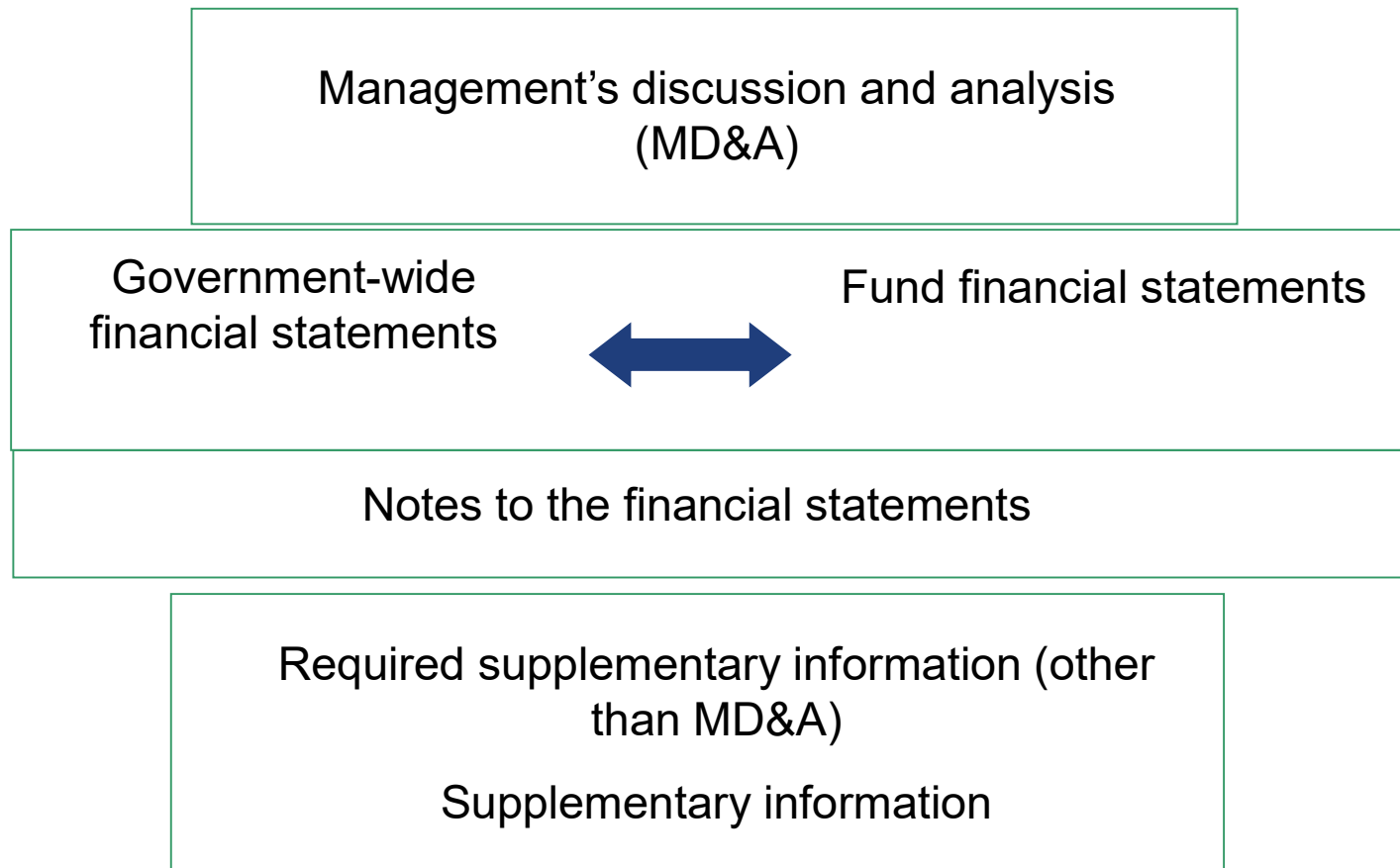


Financial Statement Reporting



Elements of a financial statement

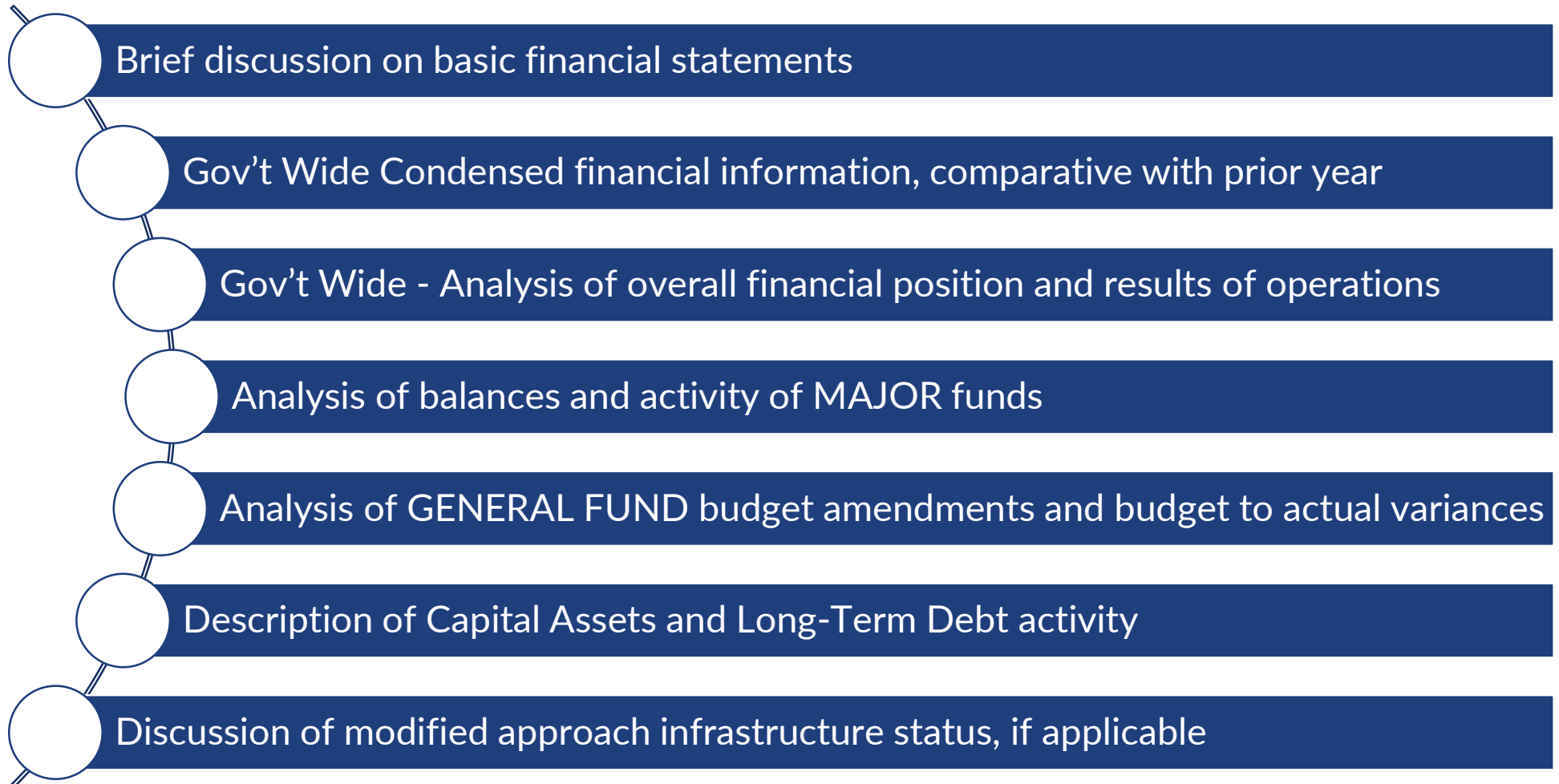
Financial Statement components:





Elements of a financial statement

Management's Discussion and Analysis





Elements of a financial statement

Government Wide Statements

- **Full Accrual**
 - Governmental Activities
 - Business Type Activities
 - Component Units

Fund Statements

- **Either modified or full accrual (depending on fund type)**
 - Governmental funds balance sheet
 - Reconciliation of government wide to governmental balance sheet
 - Governmental funds statement of changes in revenue, expenditures and fund balance
 - Reconciliation of government wide to governmental activity
 - Proprietary fund statements
 - Fiduciary fund statements
 - Component unit statements



Elements of a financial statement

Notes to Financial Statements

- Significant Accounting Policies
- Stewardship, Compliance and Accountability
- Deposits and Investments/Fair Value Measurements
- Capital Assets
- Interfund Receivables, Payables, Transfers
- Long-Term Debt
- Risk Management
- Pension
- Other Postemployment Benefits
- And others.....



Elements of a financial statement

Required supplementary information

- Budget to actual schedules for General Fund and all major special revenue funds
 - Side note: Not everyone presents budget to actual in RSI. Some present them in the basic financial statements which will no longer be an option with GASB 103 (effective first for 6/30/2026 year-ends).
- Pension and OPEB schedules
 - Schedule of Changes in the Net Pension Liability (Asset)
 - Schedule of Pension Contributions
 - Schedule of Pension Investment Returns
 - Schedule of Changes in the Net OPEB Liability (Asset)
 - Schedule of OPEB Contributions
 - Schedule of OPEB Investment Returns



Elements of a financial statement

Supplementary information

- Combining schedules
- Budgetary Comparison schedules for nonmajor funds or debt service/capital projects funds (ACFR only)
- Any other schedule deemed important to the reader by the issuing Government
 - Debt amortization schedules
 - More detailed budget to actual schedules



GASB 34 is the Bridge

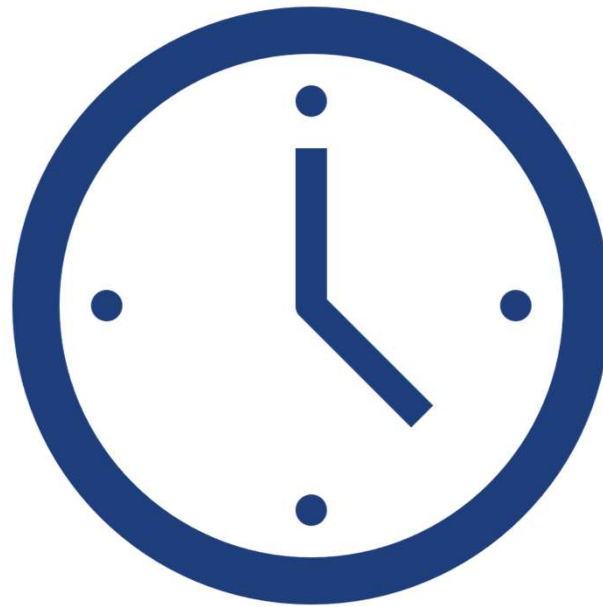
Fund Level Government
Statements



Gov-Wide
Statements

Activity

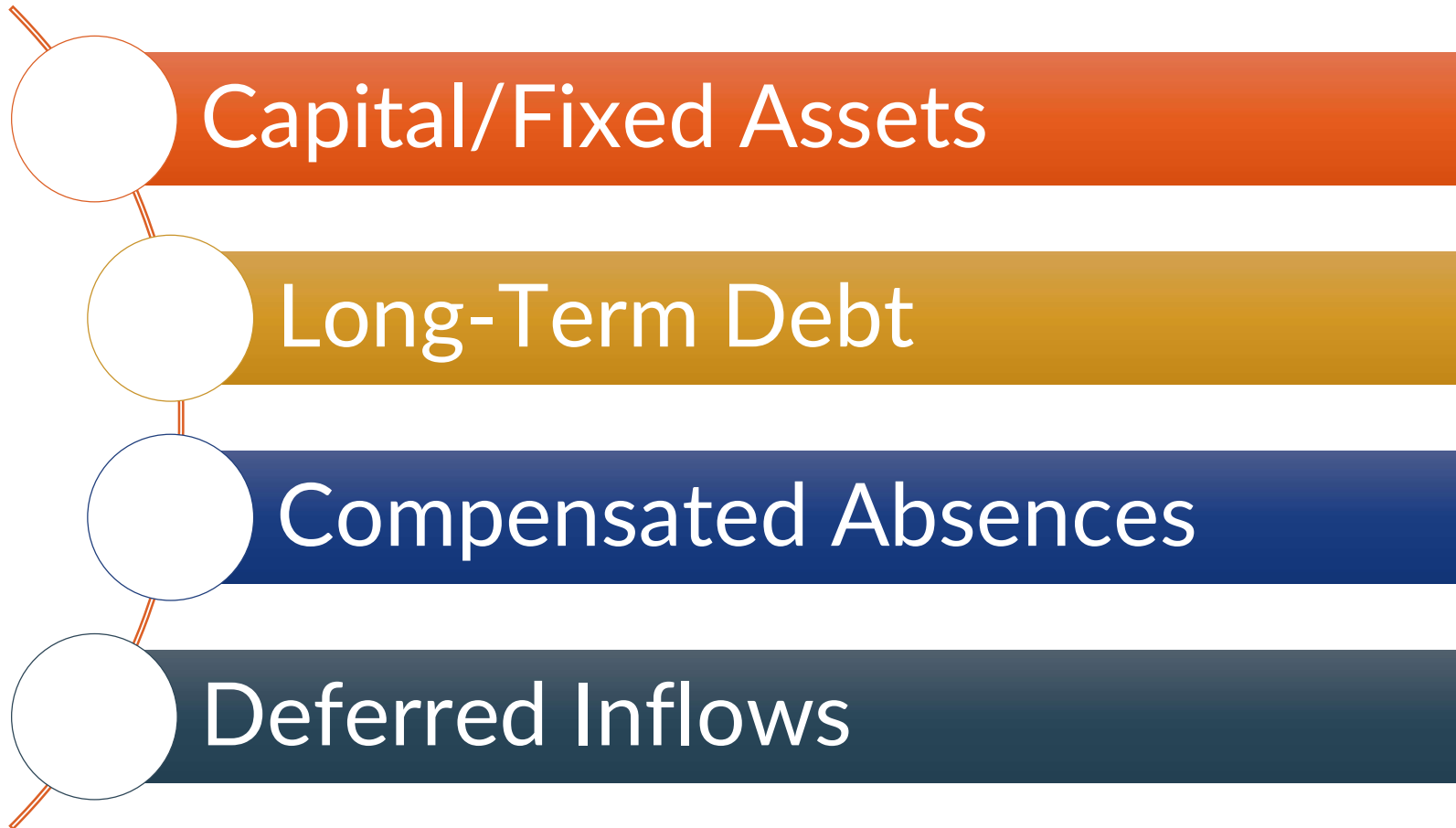
Compare the governmental fund and government wide statements and notate differences you see



5 mins



GASB 34 Primary Components





GASB 34 Primary Components

Capital Assets

- Modified Accrual Fund- No depreciation recorded. Capital assets recorded within capital outlay (expenditure) account.
- Gov't Wide Statements- Depreciation/accumulated depreciation recorded, capital asset acquisitions and disposals recognized during the year, **Gain/loss**



GASB 34 Primary Components

Long-term debt

- Modified Accrual- no interest accrued for
- Gov't Wide Statements- Accrued interest and long-term liabilities for outstanding principal
- Bond premiums treated differently
- Leases and SBITA's



GASB 34 Primary Components

Compensated Absences

- GASB 34 recognizes current-year change in noncapital debt (for example, compensated absences) by functional area (allocation).
- Comp absences other than those due and payable within the next year are recorded only on full accrual statements.



GASB 34 Primary Components

Deferred Inflows

- Unavailable revenue
- Property taxes levied in one year but not used to finance that year (No GASB 34 adjustment required)



GASB 34 Activity

Create Financial Statements



30 mins





Types of Fund Balance GASB 54

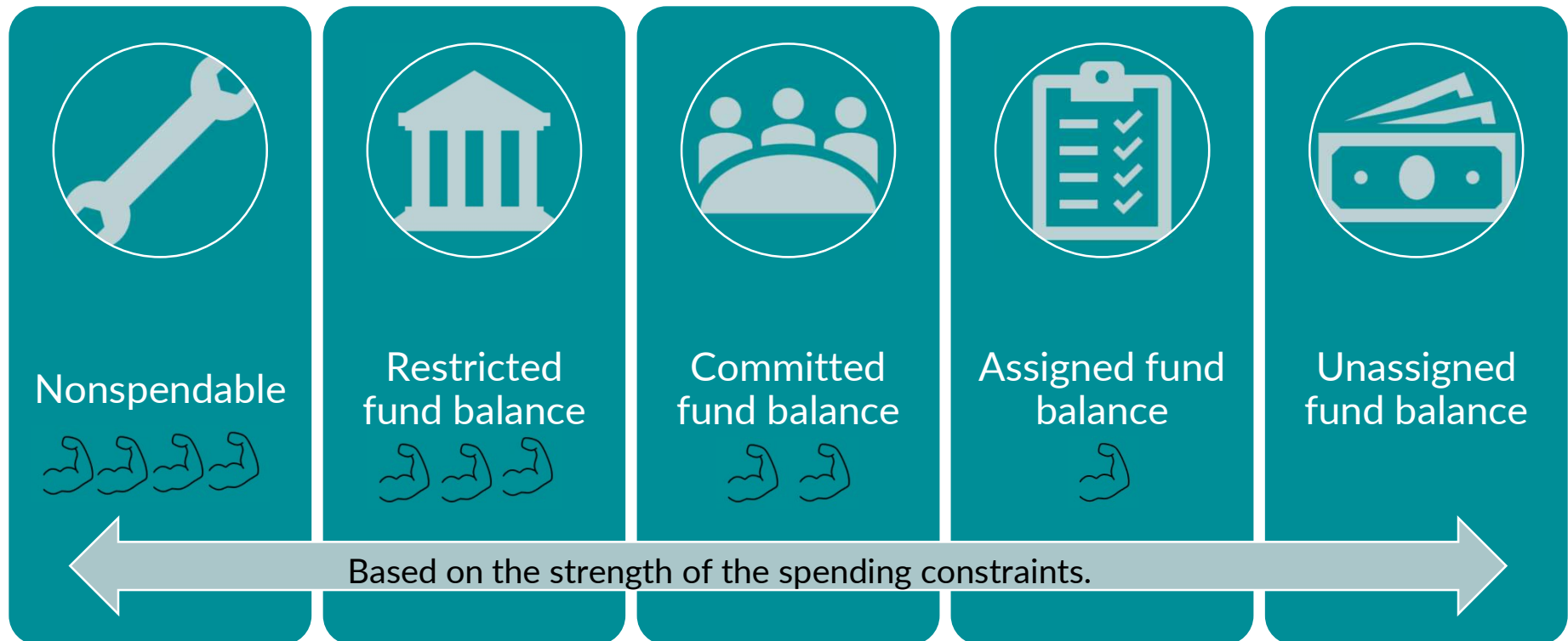


GASB 54 Brief History

- Required after 2010 (years beginning after 6/15/10)
- Changed fund balance classifications for governmental fund- based statements
 - NOT government wide
 - NOT proprietary
 - NOT fiduciary
- Redefined special revenue fund types
- Improved financial reporting by providing fund balance categories and classifications



Fund Balance Classifications





Nonspendable

- Not spendable in any form
- Legally or contractually required to be maintained (permanent fund)

Examples

- Inventory
- Prepaids
- Cemetery funds
- Non- current receivables
 - Unless once collected the amount would be restricted, committed or assigned
 - If above is true, report in applicable category



Restricted Fund Balance

- Amounts constrained to specific purposes by their providers either constitutionally or by enabling legislation.
- Most special revenue funds positive fund balance will fall into this category.

Examples

- MTF revenues
- Grants
- Dedicated millages (rubbish, library)
- Dedicated ticket surcharges (for specific purpose like building fund)
- Sales tax collected for a specific purpose
- Unspent bond proceeds
- Recent opioid settlement



Committed Fund Balance

- Amounts constrained to specific purposes by formal action of the governing body (or the highest level of decision-making authority = council, board, etc.)
- Only removed/ changed with action by the same governing body employed to commit the resources
- Should not be implied. It should be explicit and specifically actionable.
- Not legally enforceable
- Action to constrain the resources must take place prior to the end of the fiscal year.
- The exact amount can be determined subsequently.



Committed Fund Balance

Example

- Council takes formal action to commit \$150,000 of fund balance to purchase and outfit a police vehicle.



Assigned Fund Balance

- An amount a government intends to use for a specific purpose.
- Intent can be expressed by the governing body or a body to which the government delegates the authority. Delegate can be a group or an individual.
- Delegation is formally required.
- Very similar to committed fund balance but less restrictive.
- Shows intent to use resources in a particular way but is not a requirement to do so
- Action can be indirect or implied. Does not require clear, written action.
- Action can happen after year end.



Assigned Fund Balance

Example

- Amount needed to balance future year's budget



Unassigned Fund Balance

- Amounts available for any purpose
- Pretty much anything that does not fall into the categories already discussed belongs here

	General Fund	Special Revenue Funds
Unassigned surplus	Yes	No
Unassigned deficit	Yes	Yes
Note: No fund can have a deficit balance in nonspendable, restricted, committed, or assigned. If that condition exists, it becomes unassigned.		



Year End GASB 54 Workpaper

- Consider adding to GL and reclass portion of fund balance to clearly categorize

General Fund				
<i>Restricted: Veteran's Memorial</i>				
FY 2023				
Beginning Balance	59,941			
Donations	2,100	101-265.00-676.001-VETMEM18		
Expenditures	-	101-265.00-970.000-VETMEM18		
Ending Balance	62,041			
<i>Restricted: Police K-9</i>				
FY 2023				
Beginning Balance	50,820			
Donations	-			
Expenditures	(721)			
Ending Balance	50,099	101-000.00-375.006		



Fund Balance Targets



Fund balance policy

Benefits

- Stability and Risk Mitigation
- Transparent Expectations
- Strategic Financial Planning
- Best Practice

Challenges

- Could limit flexibility
- Political Pressure
- Administrative Complexity



How much should we have?

- No one-size fits all number, but it has to be greater than \$0
- TABOR requires at least a 3% emergency reserve which is restricted.
- GFOA recommends unrestricted reserves of **at least** two months of regular operating expenditures
- Risk based adjustments should be considered
- Less than one month of reserves increase the risk of cash flow shortages throughout the year.

"How much is enough? Just a little bit more"
- John D. Rockefeller



How do Fund Balance and Net Position Differ?

Concept	Fund Balance	Net Position
Used In	Governmental funds (e.g., General Fund, Special Revenue)	Proprietary funds (e.g., Enterprise, Internal Service) and government-wide statements
Accounting Basis	Modified accrual (current financial resources focus)	Full accrual (economic resources focus)
Definition	Difference between assets + deferred outflows and liabilities + deferred inflows in a fund	Same calculation, but applied to full accrual statements
Purpose	Measures short-term financial resources available for spending	Measures overall financial position, including long-term assets and liabilities



The Audit and Financial Statements



Auditor Expectations

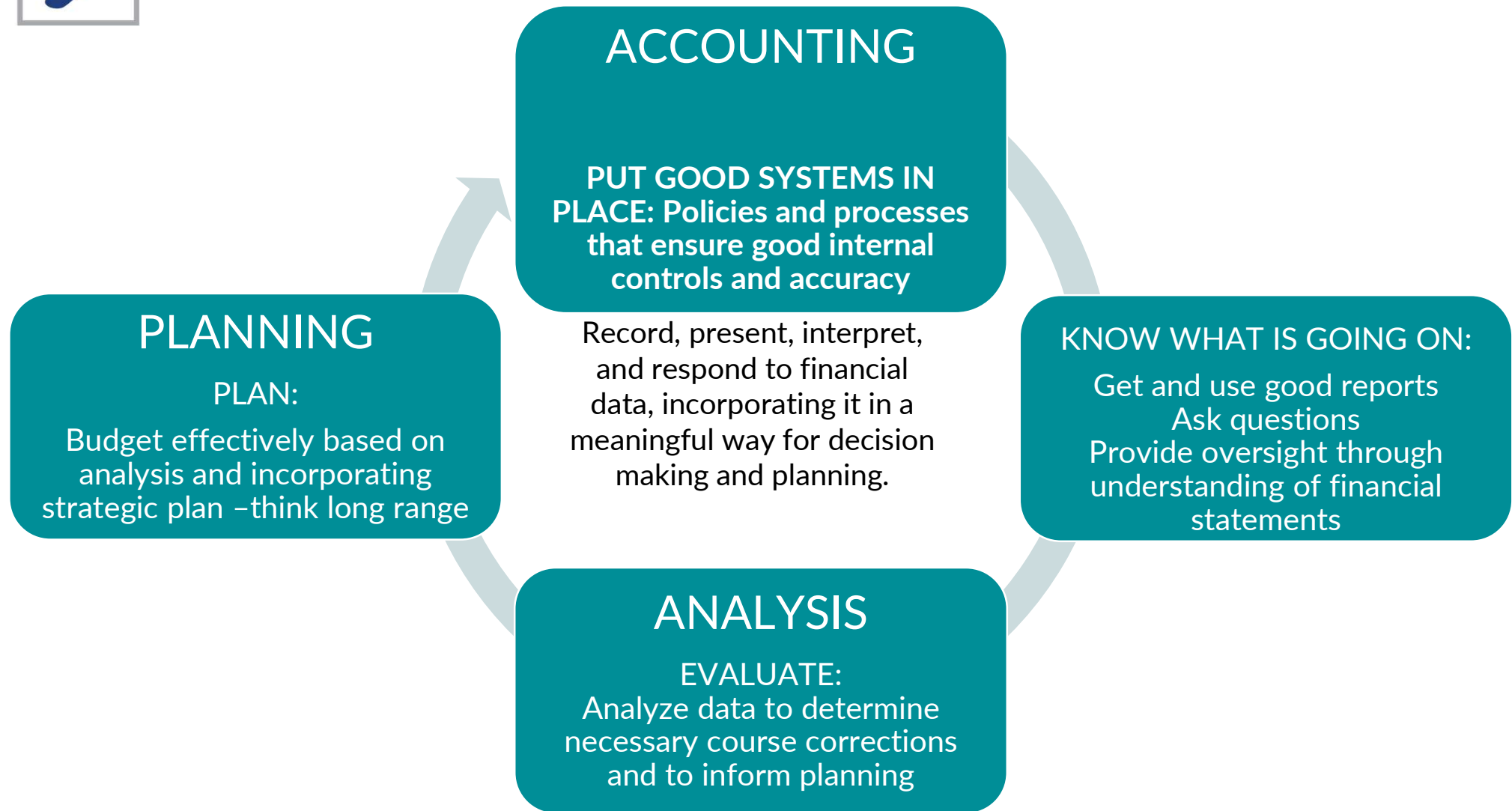
Role of the external auditor:

Express an opinion about whether the financial statements prepared by management are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles.



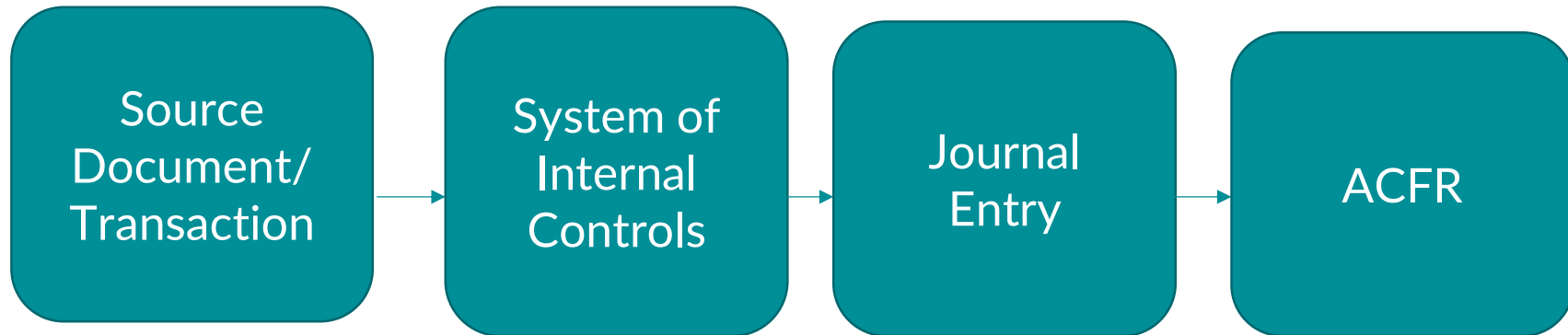
Auditor Expectations

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based and includes the information contained in the accounting records underlying the financial statements and other information.





Auditor Expectations



- Good documentation is NOT only for the independent auditors
- An adequate system of internal controls reduces the risk of loss and helps ensure that financial information is complete and accurate and therefore, financial statements/financial reporting are reliable.



Financial Statements



Components of Govt Financial Statements

Minimum Requirements:

Management's Discussion and Analysis (MD&A)

Government-wide financial statements

Fund financial statements

- Governmental funds
- Reconciliations of governmental funds to full accrual
- Proprietary funds
- Fiduciary funds
- Discretely presented component units combining schedule (if needed)

Notes to the financial statements

Required supplementary information (other than MD&A)

- Budgetary comparison schedules for General Fund and major special revenue funds
- Pension and OPEB schedules

Supplementary information

- Combining fund financial statements, if applicable

Additional ACFR Requirements

Introductory Section

- Letter of Transmittal
- GFOA Certificate
- Org Chart
- Listing of Principal Officials

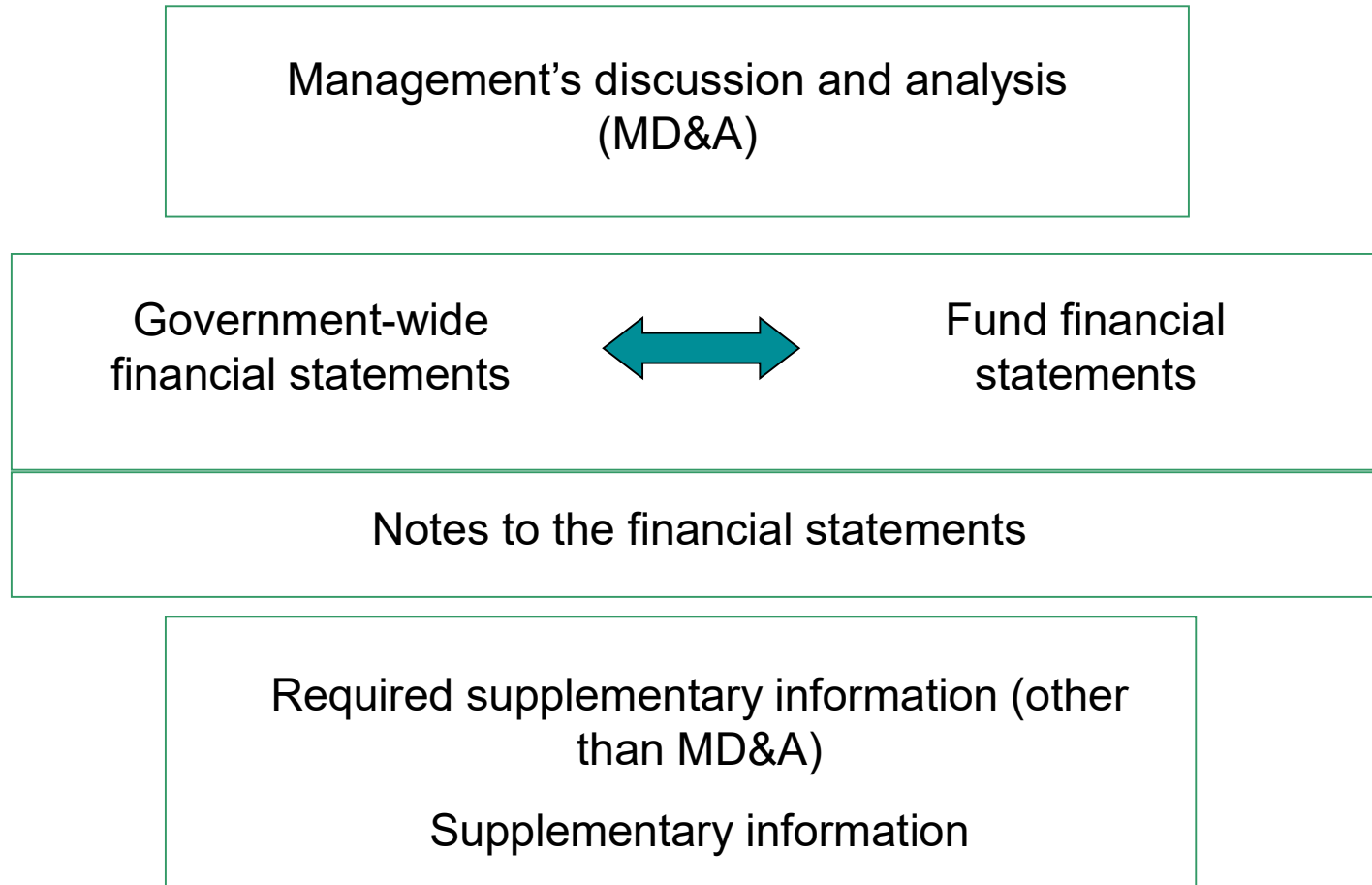
Supplementary information

- Budgetary comparison schedules for other funds not required in RSI for which a budget is adopted
- If discretely presented component units do not issue their own FS, SI should present the fund-based statements

Statistical Section



Financial Reporting Model (GASB 34)





Financial statements

	General Fund (Modified Accrual Basis)	Adjustments	Government- wide Statement of Net Position
Assets			
Cash and investments	\$ 2,664,784	\$ -	\$ 2,664,784
Prepaid expenses and other assets	47,853	-	47,853
Net OPEB asset (Note 8)	-	817,353	817,353
Capital assets - Net of accumulated depreciation (Note 4)	-	4,598,215	4,598,215
Total assets	2,712,637	5,415,568	8,128,205
Deferred Outflows of Resources			
Deferred pension costs (Note 9)	-	843,357	843,357
Deferred OPEB costs (Note 8)	-	127,468	127,468
Total deferred outflows of resources	-	970,825	970,825
Total assets and deferred outflows of resources	\$ 2,712,637	6,386,393	9,099,030
Liabilities			
Accounts payable	\$ 43,695	-	43,695
Accrued liabilities	77,367	-	77,367
Noncurrent liabilities:			
Compensated absences	-	150,647	150,647
Net pension liability (Note 9)	-	208,883	208,883
Total liabilities	121,062	359,530	480,592
Deferred Inflows of Resources			
Deferred pension costs (Note 9)	-	29,178	29,178
Deferred OPEB costs (Note 8)	-	5,893	5,893
Total liabilities and deferred inflows of resources	121,062	394,601	515,663
Equity			
Fund balance:			
Nonspendable - Prepaids	40,300	(40,300)	-
Assigned:			
Facilities and capital projects	205,684	(205,684)	-
Strategic planning	11,500	(11,500)	-
Future unfunded expenses	2,334,091	(2,334,091)	-
Total fund balance	2,591,575	(2,591,575)	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,712,637		
Net position:			
Net investment in capital assets		4,598,215	4,598,215
Unrestricted		3,985,152	3,985,152
Total net position		\$ 8,583,367	\$ 8,583,367



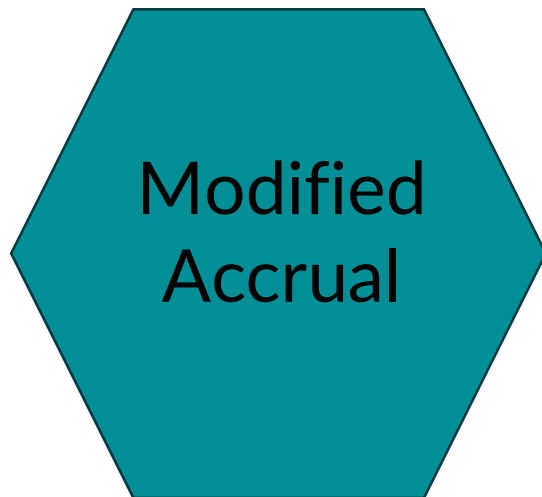
Financial statements

	General Fund (Modified Accrual Basis)	Adjustments	Government- wide Statement of Activities
Revenue			
Property taxes	\$ 3,200,922	\$ -	\$ 3,200,922
State aid and tax reimbursements	81,474	-	81,474
Penal fines	25,856	-	25,856
Library user service fees	8,220	-	8,220
Damaged book and lost fees	6,933	-	6,933
Investment earnings	159,667	-	159,667
Donations	31,511	-	31,511
Total revenue	3,514,583	-	3,514,583
Expenditures			
Personnel:			
Salaries and wages	1,568,139	-	1,568,139
Fringe benefits and payroll taxes	654,723	(86,894)	567,829
Autocirculation system services	49,476	-	49,476
Facilities and equipment:			
Repairs and maintenance	179,688	-	179,688
Utilities and janitorial	141,386	-	141,386
Administrative:			
Advertising and public relations	47,034	-	47,034
Professional services	73,772	-	73,772
Technology and related	65,655	-	65,655
Other	73,899	-	73,899
Office expenses	119,549	-	119,549
Capital outlay	494,692	(342,621)	152,071
Depreciation	-	444,787	444,787
Total expenditures	3,468,013	15,272	3,483,285
Net Change in Fund Balance	46,570	(15,272)	31,298
Fund Balance/Net Position - Beginning of year	2,545,005	6,007,064	8,552,069
Fund Balance/Net Position - End of year	\$ 2,591,575	\$ 5,991,792	\$ 8,583,367



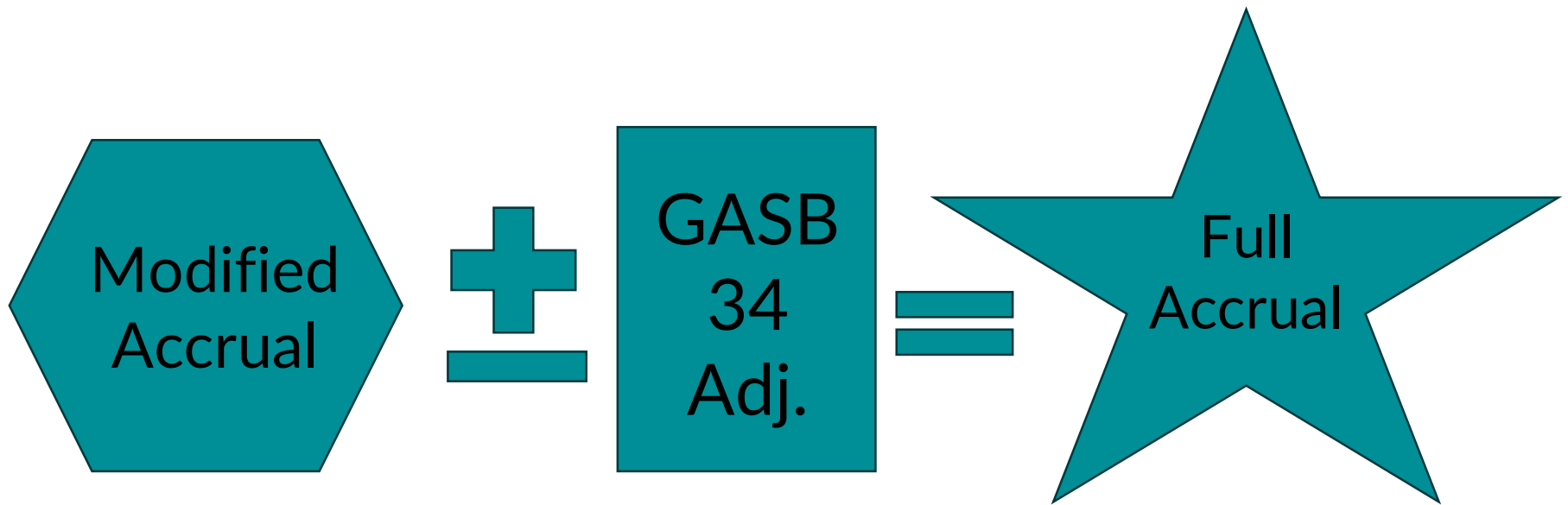
Reconciliations between fund statement level and government-wide statements – “The Bridge”

GASB 34 adjustments





Reconciliations between fund statement level and government-wide statements - “The Bridge”





Fiduciary fund statements

Government ABC
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 20X2
(in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
Cash and cash equivalents	\$ 184,351	\$ 840,693	\$ 104,747	\$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	175,402	12,166	—	—
Sale of investments	30,879	—	—	—
Total receivables	291,408	12,166	—	206,937
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,576	187,650	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,951	—	—	—
Mutual funds	72,315	178,046	—	—
Pooled investment funds	23,128	—	—	—
Total investments	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
Accounts payable and other liabilities	130,846	1,361	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	1,479,007	1,361	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	886,024	99,842
Total net position	\$ 42,711,145	\$ 2,075,946	\$ 886,024	\$ 99,842



Fiduciary fund statements

Government ABC
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
for the Year Ended June 30, 20X2
(in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	\$ 297,846	\$ —	\$ —	\$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,258	—
Total contributions	1,706,022	—	197,258	—
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment earnings	3,344,931	123,128	64,080	—
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	3,239,008	72,892	64,017	—
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,776,843)	—	—
Net capital share and individual account transactions	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	4,946,160	186,151	261,275	1,812,588
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	536,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	2,689,508	72,892	211,222	1,811,413
Net increase (decrease) in fiduciary net position	2,256,652	113,259	50,053	1,175
Net position—beginning	40,454,493	1,962,687	835,971	98,667
Net position—ending	\$ 42,711,145	\$ 2,075,946	\$ 886,024	\$ 99,842

Custodial funds could have TWO columns underneath – external investment pools, and other custodial funds



Closing the year and audit preparation



Prepare by Client (PBC) List

- The PBC lists is provided by the auditor each year
- PBC List details information needed by auditors and the required due date
- It is imperative that PBC documents are:
 - Completed accurately
 - Agreed to the final general ledger
 - Reviewed by appropriate supervisor
 - Submitted on or before the due date
- Communication is key when the deadline cannot be met



Types of Audit Evidence

- Confirmations (typically from a 3rd party)
- Council Minutes
- Internal Documentation (timesheets, payroll reports, check registers, etc.)
- Contracts, union agreements
- Journal entries with support
- Bank statements, cancelled checks, wire transfer records
- Cash receipts and invoices
- General and subsidiary ledgers
- Records of spreadsheets supporting computations and reconciliations
- Other



Insufficient Audit Evidence

- Copy of journal entry without support
 - Does the entry tell the whole story?
 - How did the preparer know this was correct?
 - Where did the amounts come from?
 - Did someone review the entry?
- Email or conversation without support
 - “Per discussion with...”
 - Professional skepticism
- Budget
 - Thousand-foot view



Cash and Investments

Deposit vs Investment

- Deposit – cash holdings that aren't considered investments
- Investment (GASB 72)– security or other asset that:
 - A government holds primarily for purpose of income/profit
 - Has a present service capacity based solely on its ability to generate cash or to be sold to generate cash

Cash and Cash Equivalents—can be a deposit or investment

- Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Restricted Cash and Investments

- These assets are externally required to be physically segregated
- External restrictions imposed by creditors, grantors, contributors, laws or regulations, or constitutional provisions or enabling legislation
- Examples of external requirements:
 - Bond requirements
 - Legal requirements
 - Amounts in escrow



Cash and Investments

- **Bank Reconciliation summary**
 - Should provide bank account numbers and general ledger account numbers
 - Bank account balances should clearly tie to bank statements/confirmations
 - Reconciled book balances should clearly tie to the general ledger
 - Pooled/grouped should clearly identify which account numbers they tie to in the general ledger
- **Reconciling items**
 - Outstanding check lists, deposits in transit, and other reconciling items should be broken out separately by category on the bank reconciliation summary
 - Detailed listings of each type of reconciling item should foot and agree to the bank reconciliation summary
 - Unreconciled differences should be identified
 - Voided checks should not be included on the outstanding check list



Cash and Investments

Bank Reconciliation summary example

CITY OF XYZ										
SUMMARY OF BANK RECONCILIATIONS										
							Balance	OS		Balance
Fund	GL Account	GL Desc	Bank	BS&A Code	Account Number	Bank Name	Per Bank	Checks/Withdrawals	DIT	Per Books
PEG Restricted	101-000-001.010	Peg - Gen Fund	Comerica	1.5	123456	Peg Funds Plus	374,740.36	-	-	374,740.36
Personal Property Delinquent Tax	101-000-001.012	Chase Bk Delq Pers Prop	Chase	4	123588	Personal Property Tax	118,585.01			118,585.01
Tax Fund	101-000-001.019	Comercia Bk Tax Savings	Comerica	2.5	154886	Tax Savings	1,604,535.20	41,442.33		1,563,092.87
General	101-000-001.020	Admin Fee 1%	Comerica	2.6	1799888	Tax Administration 1%	51.96			51.96
Tax	101-000-001.031	Federal Tax Savings	Comerica	3.1	126060	Tax Bills Collected	132,908.79			132,908.79
General	101-000-001.900	ARPA Cash	Comerica	1.1	185698	American Relief Plan	12,157,231.50			12,157,231.50
General	101-000-001-000	Cash	Comerica	1	207889	General Fund	4,306,611.37	1,071,490.77	19,106.00	3,254,226.60
CDBG - HUD	103-000-001.500	Chase Cash Rehab	Chase	20	698741	Community Development Block Grant "Residential Rehab"	318,077.34			318,077.34
Major Str	202-000-001.000	Cash	Comerica	15	587746	Motor Vehicle Highway Fund Major Street	1,022,428.34	4,353.00		1,018,075.34
Local Str	203-000-001.000	Cash	Comerica	16	877779	Vehicle Highway Fund Local St	15,721.93	1,795.00		13,926.93
Misc. Grants	274-000-001.000	Cash	Comerica	7	77877	Miscellaneous Grants	31,816.49			31,816.49
Building Auth	401-000-001-000	Cash	Comerica	31	87722	Community Recreation Center Construction Fund	111.52			111.52
Library Constr	401-000-003-001	Cash	Comerica	25	888252	Library Fund	16,685.17			16,685.17
TIFA	493-000-001.000	TIFA	Comerica	9	877222	TIFA	68,848.42	58,078.75		10,769.67
TIFA-Brownfield	499-000-001.000	Cash	Comerica	27	887112	Brownfield Authority	271,429.96	19,822.25		251,607.71
Water	592-000-001.100	Cash Comerica (Water)	Comerica	12	887222	Water and Sewer Receiving Fund	3,417,774.14	5,578.43	37,981.42	3,450,177.13
Water	592-000-001.200	CashChase (Water O&M)	Chase	11	288778	Water O/M "Water Checking"	1,585,096.42	1,382,308.31	89,810.43	292,598.54



Cash and Investments Example

Situation: Auditor is testing cash and receives the following bank reconciliation:

Bank Account Balance:	\$ 5,265,320.00	account ending 1562
Reconciling Items:	<u>\$ (1,568,105.00)</u>	
GL Balance:	\$ 3,697,215.00	GL account 1000-1562

Missing:

- Detailed breakout of the reconciling items
- Name of bank



Accounts Receivable

- Accounts receivable
 - Subsequent collection support
 - Support for allowances –
 - Allowances should not be reserved for at 100% in most cases
 - Ensure receivables are not over-allowed for



Capitalization Best Practices



Based on GFOA best practice not all “tangible capital-type items with useful lives extending beyond one reporting period” are required to be capitalized using a practical application of the materiality principle



Assets with small monetary value and/or very short useful lives (ie < 2 years) can be an expense in period acquired.



Consistency should be taken into consideration



Create a system that is not difficult and costly to maintain



What should be capitalized?



Assets that meet the capitalization threshold



Expenditures that extend the asset life or increase functionality



Asset plus ancillary charges necessary to place the asset into service



Assets should be capitalized at historical cost (except donated assets, which should be capitalized at their acquisition value)



What should not be capitalized?



Item is below your capitalization threshold



Item does not meet your capitalization policy



Useful life not extended



Capacity and efficiency is unchanged



Repairs and maintenance



Capitalization Policy Tips



Have a robust capitalization policy that addresses key considerations to reduce ambiguity



Ensure your policies and procedures are effective and will capture all capitalization items that are material



Cadence of Capital Assets



During the Year

- Update capital asset activity on regular intervals: monthly or quarterly
- Update the capital asset rollforward
- Have departments review capital asset listing for any potential additions or disposals or impairments as well as identify construction project status

End of the Year

- Complete year-end update to capital asset activity
- Update capital asset rollforward
- Perform additional internal control steps to ensure capital asset activity is complete and accurate
- Review repairs and maintenance accounts for assets that should have been capitalized
- Analyze construction in progress and placed in service dates
- Verify retainage is recorded properly



Capital Assets Rollforward

Prepare/Update Capital Asset Rollforward

1. Beginning Balances
 1. Verify that they tie out to prior year audited financial statements
2. Adjustments
 1. Ensure capital assets are properly recorded based on the following types:
 2. Additions
 3. CIP placed in service (transfer out of CIP and addition/transfer into asset)
3. Disposals/Impairment
4. Ending Balances
 1. Agree to GL accounts
 2. Agree to lease agreements, if applicable



Example Rollforward Template

Capital Assets	Avg Dep Life	Balance as of June 30, 2023	Additions	Disposals	Transfers in	Transfers Out	Balance as of June 30, 2024
Buildings	30						
Building Improvements	15						
Construction in Progress	0						
Equipment	7						
Accumulated Depreciation	Avg Dep Life	Balance as of June 30, 2023	Additions	Disposals	Transfers in	Transfers Out	Balance as of June 30, 2024
Buildings	30						
Building Improvements	15						
Construction in Progress	0						
Equipment	7						



Capital Assets

- **Additions**
 - Copies of invoices for capital asset purchases
 - Third party evidence for contributed fixed asset
 - Detailed listing of the components of CWIP or other groups of additions
 - Fund based capital outlay expenditures should relate to purchased additions
 - Detail should tie to the total additions listing
 - Review miscellaneous expense accounts to see if there are items that should be capitalized
- **Disposals**
 - Evidence for sold capital assets (purchase agreements, cash receipts detail)
 - Support for impairments or disposals with net book value
 - Detail should tie to the total disposals listing
- **Depreciation**
 - Ensure depreciation formulas are accurate
 - Verify that capital assets are not over-depreciated
 - Detail should tie to the total depreciation listing



Capital Asset Scenario

The City of Springfield has recently undertaken a project to improve its public library system. As part of this project, the city has purchased new equipment, constructed a new library building, and implemented new library management software.



Capital Asset Scenario-Breakdown of Capital Assets

1. New Library Building

Description: A new public library building was constructed to replace the old one

Cost: \$5,000,000

Useful Life: 50 years

Depreciation Method: Straight-line

2. Library Equipment

Description: New computers, furniture, and other equipment for the library

Cost: \$200,000

Useful Life: 10 years

Depreciation Method: Straight-line

3. Library Management Software

Description: New software system for managing library operations and cataloging books

Cost: \$150,000

Useful Life: 5 years

Depreciation Method: Straight-line



Journal Entries for the Initial Recording of Capital Assets

Recording the Construction of the New Library Building

Dr. Buildings	\$5,000,000	
Cr. Cash (or Accounts Payable)		\$5,000,000

Recording the Purchase of Library Equipment

Dr. Equipment	\$200,000	
Cr. Cash (or Accounts Payable)		\$200,000

Recording the Purchase of Library Management Software

Dr. Intangible Assets - Software	\$150,000	
Cr. Cash (or Accounts Payable)		\$150,000



Depreciation of Capital Assets

Annual Depreciation Expense Calculation

Library Building:

- Annual Depreciation Expense= $\$5,000,000 / 50 \text{ years}$
- = $\$100,000$ per year

Library Equipment:

- Annual Depreciation Expense= $\$200,000 / 10 \text{ years}$
- = $\$20,000$ per year

Library Management Software:

- Annual Depreciation Expense= $\$150,000 / 10 \text{ years}$
- = $\$15,000$ per year



Journal Entries for Annual Depreciation (GASB 34)

For Library Building

Dr. Depreciation Expense - Buildings	\$100,000
Cr. Accumulated Depreciation - Buildings	\$100,000

For Library Equipment

Dr. Depreciation Expense - Equipment	\$20,000
Cr. Accumulated Depreciation - Equipment	\$20,000

For Library Management Software

Dr. Depreciation Expense - Software	\$15,000
Cr. Accumulated Depreciation - Software	\$15,000



Capital Asset: Items to Have ready for the Auditors

Capital asset invoices for additions, supporting detail for disposals, pay-apps for retainage

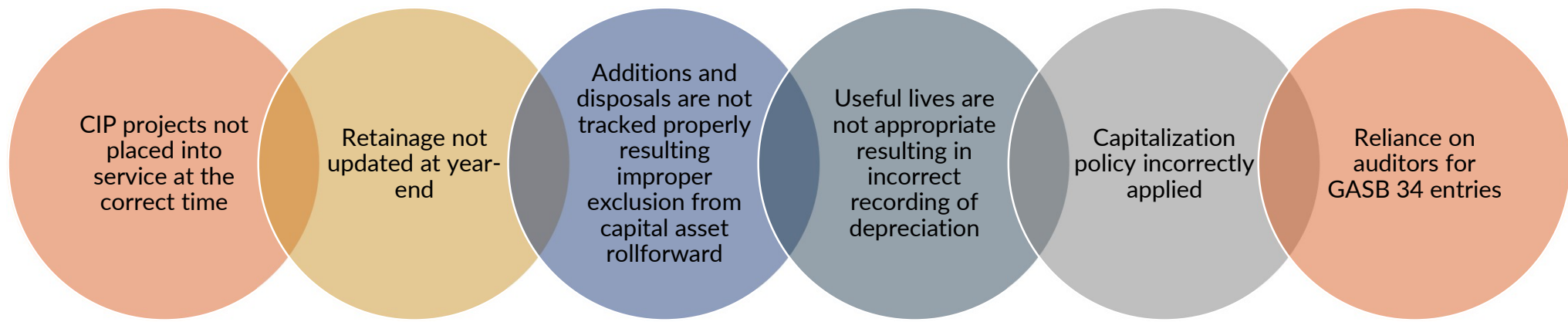
Capital asset rollforward with documentation of tie out to the GL and tie out of beginning balances to PY issued financial statements

Communication documentation from asset manager on activity for the year

Include full accrual entries even if GASB 34 fund not created within the accounting software



Common Capital Asset Audit Findings:





Other Accrued Liabilities

- **Accrued liabilities and payroll**
 - Detailed schedules for accrued liabilities must agree to the general ledger and be supported with evidence
 - Support should be easy to follow (i.e. pay rate x hours = expense)
 - Identify any differences/unreconciled items on samples provided
 - Third party reports
 - Method for client calculation
- **Unearned revenue**
 - Detailed unearned revenue schedule must agree to the general ledger and be supported with evidence



Long-Term Debt

- Recording issuance of bonds
- Refunding bond issues
- Amortization of premiums, discounts, and refunding losses



Financial Statement Tie-Outs

Ensuring Internal Consistency

Verifying accuracy within the financial statements

Comparing to Prior Year Statements

Identifying changes and trends over time

Consistency Between Statements and Footnotes

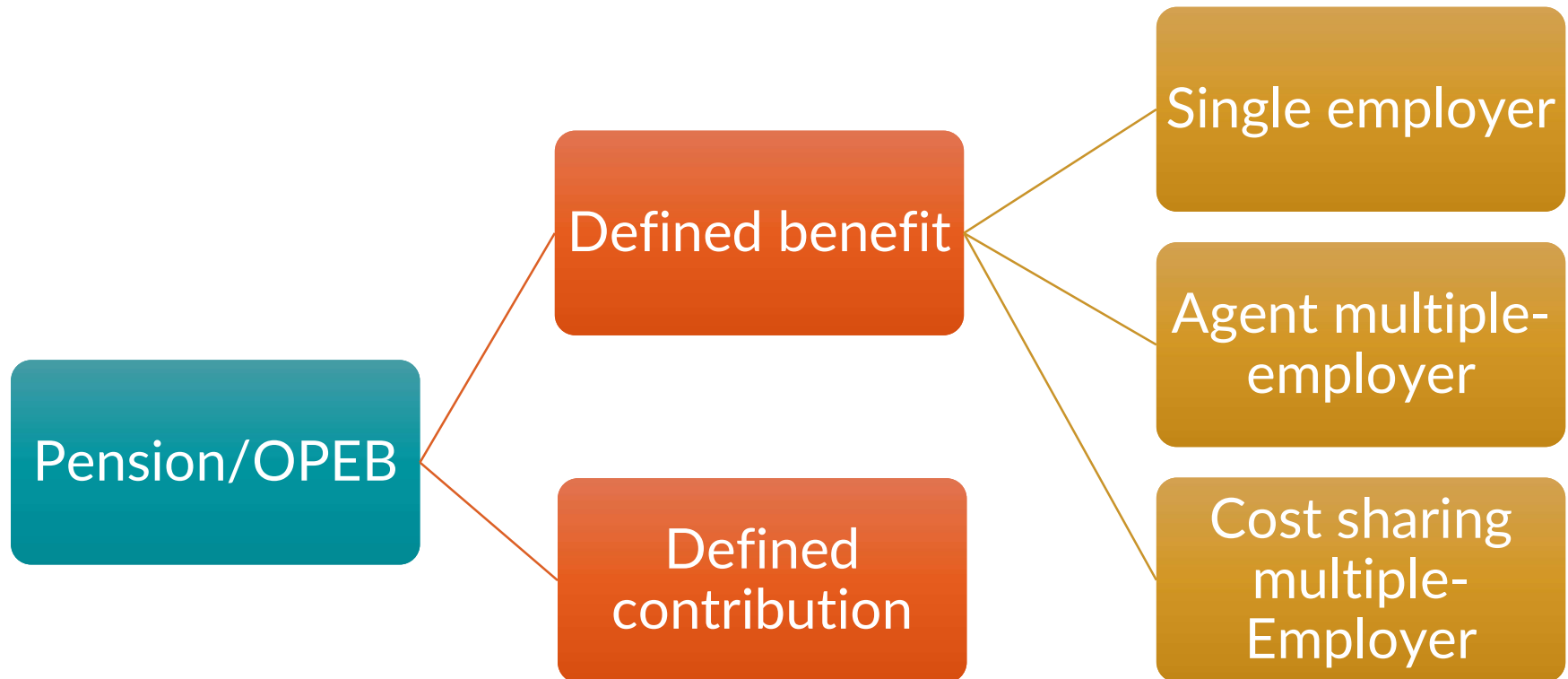
Ensuring footnotes align with the main financial statements



Retirement



Types of Retirement Plans





Defined Contribution (DC) Plans

DC plans stipulate only the contributions made to each employee's account each year; the benefit amount is dependent upon what was contributed.

- In essence, the amount contributed is fixed, but the benefit is not.

Normally not administered by our local governments

- Municipality just sends the funding to the fiduciary. Municipality is not responsible after that. Therefore, normally not audited by the auditor of the local government.

Very little reporting and/accounting requirements by the employer



Defined Benefit (DB) Plans

Specifies the benefits to be provided to the employees after the end of their employment

- In essence, the amount contributed will vary year to year, but the employee knows how the benefit will be calculated.
- Employer is on the hook if they don't sufficiently fund the plan.

Single employer

- Provides pension or OPEB benefits to the employees of ONE employer (exp: The City of Sample Police and Fire Pension System). That one employer maintains administrative responsibility over the plan;
- Therefore, that employer reports the related pension plan within its financial statements as a fiduciary fund – in most cases.



Defined Benefit (DB) Plans

Agent multi-employer plan

- Multiple employers participating in one plan held in an agency capacity by the pension/OPEB system
- The assets of the participating government employers are pooled for investment purposes but separate accounts are maintained for each individual employer
- Each participating employer's share of the pooled assets is legally available to pay the pension of only its retirees

Cost sharing Multiple-employer plan

- Multiple employers participating in one plan
- The participating government employers pool their assets and their obligations to provide defined benefit pensions—meaning that plan assets can be used to pay the pensions/OPEB of the retirees of ANY participating employer



Actuary Information

- **Actuary role**
 - Data used
- **Impact on audit**
 - Use in testing
 - Financial statement impact



Use of an Actuary

What does an actuary do?

- Projects future pension/benefits costs based on census/payroll information provided by the plan
- Determines the present value of those benefits
- Allocates those benefits to the service years provided (past, current, future)

What information does it provide to the system?

- Provides the actuarially determined contribution (ADC)
- Provides other data relevant to plan reporting

Use of actuarial assumptions (high level)

- Certain assumptions needed to make the actuarial projections
- Set by the municipality (within the parameters of GASB and actuarial standards)



Actuarial Valuation frequency

- **GASB 67/68**
 - Measurement date must be measured annually
 - Actuarial valuation is required to be at least biannually and needs to be rolled forward if not performed annually as of the measurement date.
- **GASB 74/75**
 - Must be measured at least biannually. Many do it annually.
 - If biannual, an interim valuation must be performed in the second year for reporting purposes.
 - If there are new benefit changes or other significant changes, a new actuarial valuation may be required.



Actuary Information

- Highlights of actuary report
 - Actuarially Determined Contribution
 - Participant Data (obtained by actuary through census/payroll data)
 - Funded Status
 - Assumptions



Net Pension Liability (GASB 67/68)



Total Pension Liability → Calculated by actuary

Plan Net Position → Net position of the Trust

Employers record the **NET** pension liability on the full accrual statements (i.e what is left to be funded over time).



Net OPEB Liability (GASB 74/75)



Total OPEB Liability → Calculated by actuary

Plan Net Position → Net position of the Trust

Employers record the **NET OPEB liability** on the full accrual statements. (i.e what is left to be funded over time)



Net Pension Liability/Net OPEB Liability (GASB 68 & 75)

Employer Financial Statement Impact of Net Pension/OPEB Liability

Modified accrual funds

- No impact
- Expense is recorded based on funding methodology, generally the actual contributions (contributions sent by check or wire to Trust)

Full accrual funds

- Pension/OPEB expense will be based on the fiscal year corresponding to the employer's measurement date
- Some changes in the net pension/OPEB liability will be allowed to be deferred
- Allocation of expense to the appropriate full accrual funds
- Governmental activities
- Business type
- Internal service
- Discretely presented component units
- Governmental activities – ensure allocation to appropriate functions



Income Statement Impact

CHANGE IN NET PENSION/OPEB LIABILITY DUE TO:	EXPENSE	DEFERRED I/O
1. Employees work and earn more benefits	X	
2. Interest on the total pension/OPEB liability	X	
3. Changes in total pension liability due to:		
a) Actual economic & demographic changes differing from assumed		Amortized Over Service Period
b) Changing assumptions about economic & demographic factors		Amortized Over Service Period
c) Changes in the terms of pension/OPEB benefits	X	
4. Changes in amount of pension plan net assets due to:		
a) Projected investment earnings	X	
b) Actual investment earnings experience different than assumed		Amortized Over 5 Years
c) All other (receiving contributions, paying benefits, etc.)	X	
5. Changes in proportionate share of collective net pension liability (cost-sharing plans only)		X



Key Assumptions

Projected future benefit payments

Pension

OPEB

Mortality

Retirement

Salary Scale
(including
inflation)
(if benefit is
pay related)

Mortality

Retirement

Base Year
Claims Cost

Health Care
Cost Trend
Rate

Participation
Rate

Numerous assumptions are used – Only a few have significant effects on a valuation



GASB Updates (GASB 101, 103, and 104)



Overview of GASB 101

Leave that
hasn't been
used:



a) Attributable to
services already
performed

b) Accumulates

c) More likely than not to be
used for time off or
otherwise paid in cash or
settled

Subjective

Also, recognize leave that has been used but not
yet paid in cash or settled



GASB 101-Exceptions

Leave more likely than not to be settled through conversion to defined benefit postemployment benefits

Leave dependent upon occurrence of sporadic events that impact a small population of employees (parental leave, jury duty, military leave)

Unlimited leave and holiday leave taken on specific dates



More Likely Than Not

Subjective and requires professional judgment

The goal is to evaluate if the accumulated leave will become eligible for use or payment in the future

Key considerations:

Evaluate your historical information about the use and payment of compensated absences

Utilize the data that is accessible to you, and try to go back 3-4 years

Review for any items that would show that the historical information may not be representative of future trends or patterns (like covid)



More Likely Than Not

Common Historical Data that is useful for the analysis:

Leave used by leave type

Leave earned by leave type

Ending accrued leave balances for current and prior year

Leave balances at time of termination

Ideally all data sets include individual employee data with start date, term date, and bargaining unit, as well as the funds the employee is paid out of.



More Likely Than Not

When the data isn't available:

Develop an alternative logical method to estimate and document the approach/methodology

Remember it is an estimate and the calculation methodology is not prescribed, so you may need to think outside the box in order to work with the data available to you

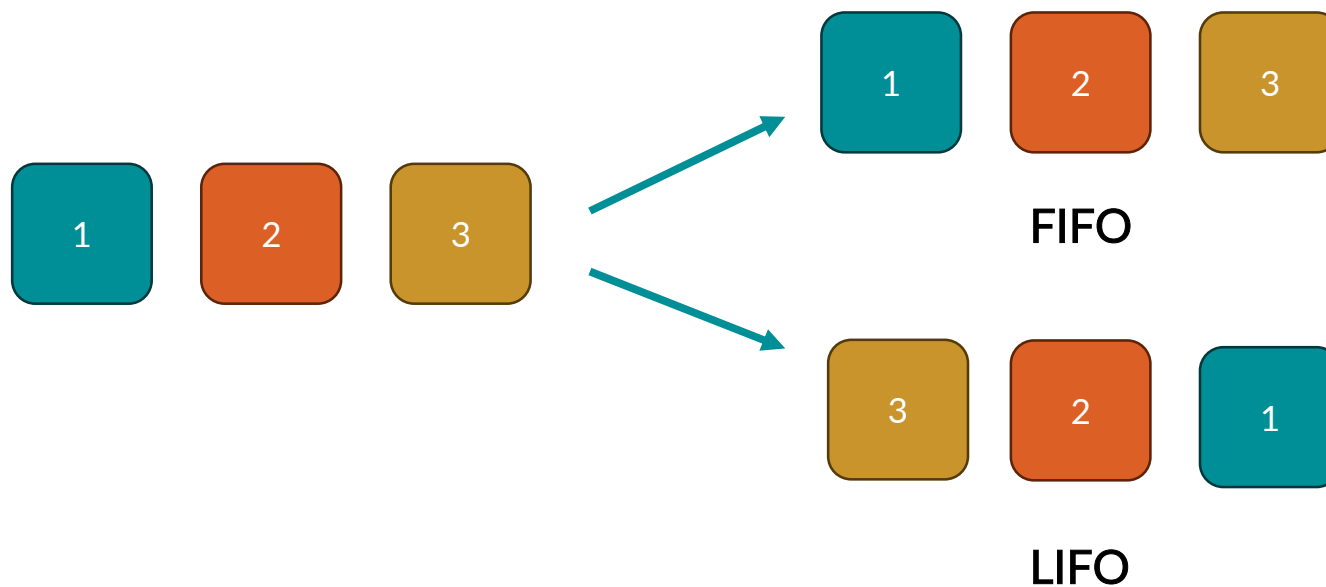
This could look like:

Analysis of certain related trends in aggregate or across employee groups (% of employees who reach retirement, % of retirees receiving a payout, turnover rates, etc)

Developing a reasonable methodology for allocating the liability between business type and governmental activities (% of employees charged to each fund type, % of employees in each bargaining unit, etc)



LIFO v FIFO





LIFO v FIFO

Key Question:

As an employee uses leave throughout the year, do they first use the leave they have earned in that period, or do they first use leave from their leave bank?

Key consideration to determine early in the process

Can have a significant impact on the calculation of the liability

Not usually defined in leave policies

Have discussions with management to determine

Documented analysis and data to support the determination



GASB 101 Measurement

Use employee's pay rate as of the date of the financial statements
UNLESS:

- Amount will be paid out at a different rate (like at half their pay rate)

- If settled through noncash means, measured based on amount for which it is more likely than not to be settled

- Consider salary-related payments (like the employer share of Social Security. Medicare taxes, and DC plan contributions)



GASB 101 – Discussion

Key Takeaways

Lessons Learned

Future Look Fors



GASB 103

Financial Reporting Model Improvements

Effective date

- Fiscal years beginning after June 15, 2025.

Objective

- Improve key components of the financial reporting model to enhance its effectiveness in providing information that's essential for decision-making and assessing a government's accountability.



GASB 103

Overview

- Management's Discussion and Analysis (MD&A)
- Proprietary fund statement presentation
- Budgetary comparison information
- Unusual or infrequent items
- Major component unit presentation
- Financial trends in statistical section



Management's discussion and analysis

Refines MD&A structure into five sections

Emphasizes analysis of reasons for changes (why did amounts change significantly) Avoids unnecessary duplication

Revises proprietary fund condensed presentation to match other changes required by this Statement

Moves budget analysis to the notes to the RSI

Includes intangible assets, lease assets/liabilities, PPP assets/liabilities, and subscription assets/liabilities in capital asset and LTD discussion

Removes modified infrastructure asset discussion



Proprietary fund statements

Modifies the presentation of the proprietary fund statement of revenues, expenses, and changes in net position

Creates new classification – noncapital subsidies

Redefines nonoperating revenue and expenses



Proprietary fund statement presentation

BEFORE:

Operating Revenues	
Water and Sewer Services	\$ 24,800,118
Other Operating Revenue	2,415,866
Grants	3,481,552
Total Operating Revenues	30,697,536
Operating Expenses	
Water and Sewage Disposal Charges	13,557,801
Transmission and Distribution Expense	694,604
Billing and Administrative Costs	4,565,379
Other Operating Expenses	301,941
Depreciation	3,663,310
Total Operating Expenses	22,783,035
Operating Income	7,914,501
Non-Operating Revenue (Expense)	
Interest Earned on Investments	1,253,735
Contributed Capital Revenue	1,500,000
Interest Expense	(151,366)
Gain on Sale of Asset	13,000
Total Non-Operating Revenue (Expense)	2,615,369
Change in Net Position	10,529,870
Net Position (As Restated) (Note 14)- Beginning of Year	108,543,772
Net Position - End of Year	\$ 119,073,642

Enterprise Fund Water and Sewer Fund

AFTER:

<u>Operating revenues (detailed)</u>
Total operating revenues
<u>Operating expenses (detailed)</u>
Total operating expenses
Operating income (loss)
<u>Noncapital subsidies (detailed)</u>
Total noncapital subsidies
Operating income (loss) and noncapital subsidies
<u>Other nonoperating revenues and expenses (detailed)</u>
Total other nonoperating revenues and expenses
Income (loss) before unusual or infrequent items
<u>Unusual or infrequent items (detailed)</u>
Increase (decrease) in fund net position
<u>Fund net position—beginning of period</u>
<u>Fund net position—end of period</u>



Proprietary fund (continued)

The Statement defines nonoperating revenues and expenses as any of the following, with operating activities including all other activities:

Contributions to
permanent and
term
endowments

Revenues and
expenses related
to financing

Resources from
the disposal of
capital assets and
inventory

Investment
income and
expenses

Subsidies
received and
provided



Proprietary fund (continued)

Subsidies include the following:

Resources received from another party or fund (1) for which the proprietary fund does not provide goods and services to the other party or fund and (2) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise.

Resources provided to another party or fund (1) for which the other party or fund does not provide goods and services to the proprietary fund and (2) that are recoverable through the proprietary fund's current or future pricing policies.

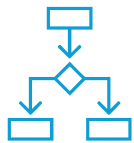
All other transfers.



Budgetary comparison information



Must be presented as RSI, not in the basic financial statements



Requires two variance columns:

- Difference between original and final budget.
- Difference between final budget and actual amounts.



Notes to RSI must explain significant variances



Unusual or infrequent items



Special or extraordinary items concept removed

- However, does not redefine “unusual in nature” or “infrequent of occurrence.”

Items that are either unusual or infrequent are presented individually as the last items on the flows statement before the net change

Each unusual or infrequent item should be presented separately



Major discretely presented component units

Condensed financial statements in the footnotes is no longer a presentation option

Preferred presentation is separate columns in the statement of net position and statement of activities

Combining statements allowed if readability is impacted.

No change to concept of major discretely presented component units



Statistical section

Change applies to governments only engaged in business-type activities or business-type activities and fiduciary activities

Financial trends must show revenues by major source

Distinguish between operating, noncapital subsidies, and other nonoperating



GASB 103 – Implementation considerations

Proprietary Funds:

- All proprietary fund statements will need some level of updating to comply with the standard
- Certain line items may be reclassified into the new “noncapital subsidies” section
- Certain line items may be reclassified into or out of operating activities
- Limited examples:



Start analyzing these changes now.

Review all proprietary fund revenue and expense line items

If preparing your own financial statements, begin updating the template

Line Item	Current Presentation	GASB 103 Presentation
Transfers	Separate lines below nonoperating	Noncapital subsidies (if noncapital) Other nonoperating (if capital related)
Grants	Nonoperating revenue/capital contributions in most cases (operating revenue in rare instances)	Noncapital subsidies (if operating grants) Other nonoperating (if capital related) Operating in rare instances when exchange like



GASB 103 – Implementation considerations

Other considerations:

Focus on the MD&A requirement to explain WHY significant changes occurred. This is a good time to take a fresh look at the MD&A.

If you currently present your major discretely presented component unit information using the option of condensed financial statements in the notes, this is no longer allowed.

Several changes were made impacting budgetary comparison schedules: there is no longer an option to show them in the basic financial statements, two variance columns are required, and the notes to the RSI should explain significant variances.

If you are preparing your statements, you will need to update templates to build in the appropriate changes



GASB 104

Disclosure of Certain Capital Assets

Effective date

- Fiscal years beginning after June 15, 2025.

Objective

- Provide essential information about certain types of capital assets in order to make informed decisions and assess accountability. Additionally, the disclosure requirements will improve consistency and comparability between governments.



Disclosure of Certain Capital Assets

Overview

- Disclosure only
- Requires separate disclosure of certain capital assets within the capital asset rollforward schedule
- Introduces “held for sale” criteria and disclosure requirements



Capital asset rollforward disclosures

Right-to-use lease assets (GASB 87)

- Disclose by major class(es) of underlying asset

Subscription assets (GASB 96)

- Disclose total of subscription assets

Intangible-right-to-use assets (GASB 94)

- Disclose by major class(es) of underlying asset

Intangible assets other than those specified above

- Disclose separate from other capital assets by major class of asset

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 29,484	\$ 2,020	\$ (4,358)	\$ 27,146
Construction in progress	2,915	13,220	(14,846)	1,289
Total capital assets not being depreciated	32,399	15,240	(19,204)	28,435
Capital assets being depreciated:				
Buildings and improvements	40,861	334	-	41,195
Equipment	32,110	1,544	(1,514)	32,140
Road network	72,885	10,219	-	83,104
Bridge network	18,775	4,627	-	23,402
Software	2,100	548	(650)	1,998
Lease assets:				
Buildings	25,821	209	-	26,030
Equipment	20,389	2,312	(2,456)	20,245
Subscription assets	5,490	687	(743)	5,434
Total capital assets being depreciated	218,431	20,480	(5,363)	233,548



Capital assets held for sale

A capital asset is a held for sale if:

The government has decided to pursue the sale of the asset.

AND it is probable (likely to occur) that the sale will be finalized within one year of the financial statement date.

Factors to consider when evaluating whether it's probable that the sale will be finalized within one year of the financial statement date include, but are not limited to, the following:

Whether the asset is available for immediate sale in its present condition.

Whether an active program to locate a buyer has been initiated, which may include the asset being put out for bid.

Market conditions for selling that type of asset.

Regulatory approvals needed to sell the asset.



GASB 104 – Implementation considerations

What do we need to be doing now?

- Evaluate whether any capital assets are held for sale
- If self-prepared financial statements – evaluate potential changes to the capital asset rollforward table



Single Audit



Single audit requirements

- When is a single audit required?
- When a non-federal entity expends (direct or indirect awards):
- \$750,000 – FYs beginning **before** October 1, 2024
- \$1,000,000 – FYs beginning **on or after** October 1, 2024

States and
local
governments

Not-for-profit
organizations

Indian tribes

Institutions of
higher
education (IHE)

Grants

Loans

Contracts

**this is not a comprehensive list*



SEFA Basics

Completeness and accuracy are key!

Drives KEY decisions!

What is a SEFA?

- Schedule of Expenditures of Federal Awards
- Purpose: Helps ensure transparency and accountability in the use of federal funds. Used to determine if single audit is required
- Prepared by management

Content of SEFA

- Federal agency and pass-through entity, if applicable
- Federal program name
- Assistance Listing Number (ALN)
- Amount expended



Basis for Determining when Federal Awards are Expended

Federal Awards	Basis for Determining When Expended
Grants, cost reimbursement contracts, compacts with Indian tribes, cooperative agreements under FAR, and direct appropriations	When expenditure or expense transaction occurs
Amounts provided to subrecipients	When disbursement is made to the subrecipient
Loans and loan guarantees	When loan proceeds are used
Donated property, including donated surplus property	When property is received
Food commodities	When the food commodities are distributed or consumed
Interest subsidies	When amounts are disbursed entitling the entity to the subsidy
Insurance	When the insurance is in force
Endowments	When federally restricted amounts are held
Program income	When received or used



Sample SEFA

Client Name

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Child Care and Developmental Fund (CCDF) Cluster - Passed through Michigan Department of Education - Child Care and Development Block Grant	93.575	CLIENT FY24	\$ -	\$ 3,181,706
U.S. Department of the Treasury:				
Passed through State of Michigan:				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	CLIENT 2640	-	76,713
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	CLIENT 2641	2,362,750	2,385,093
Total COVID-19 Coronavirus State and Local Fiscal Recovery Funds			2,362,750	2,461,806
Total federal expenditures			<u>\$ 2,362,750</u>	<u>\$ 5,643,512</u>



Consequence of Non-compliance

Audit finding(s)

Delays in receiving
reimbursement/advance

Additional administrative
hurdles

Disallowance of grant
expenditures

Recapture of amounts
reimbursed

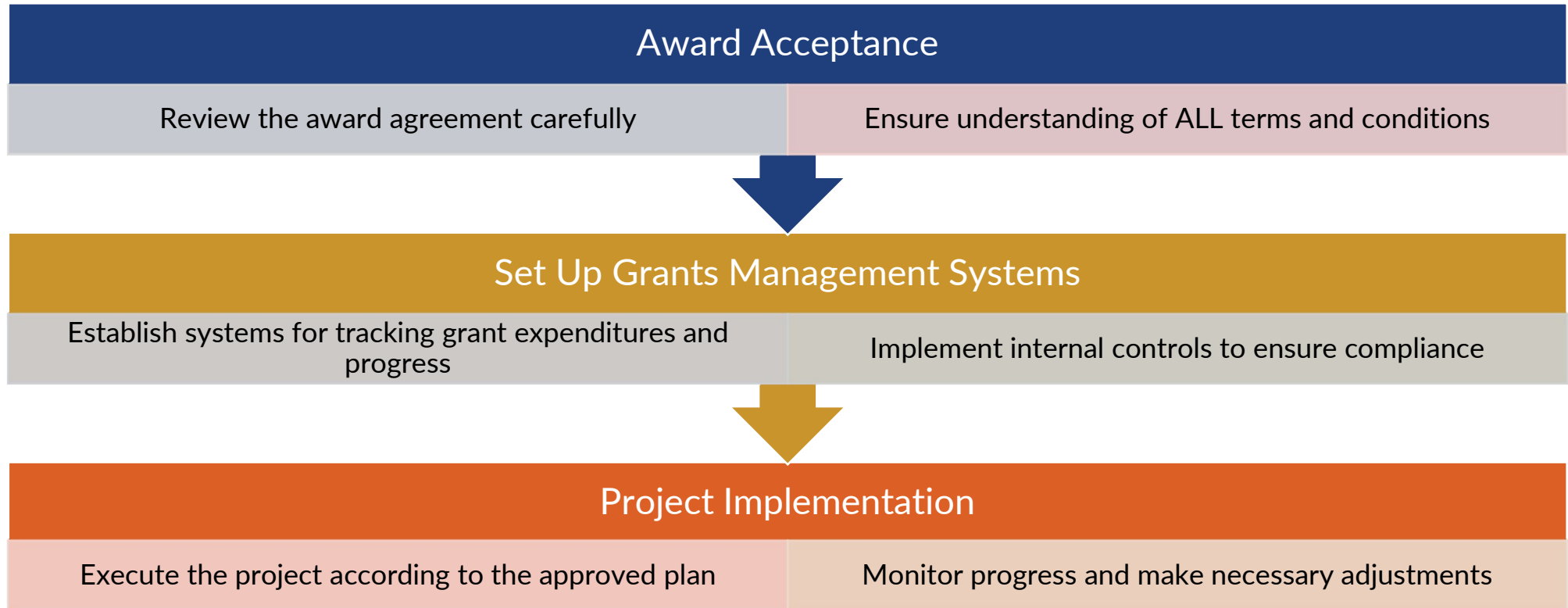
Award termination

Inability to receive future
grant funding

Suspended or debarred

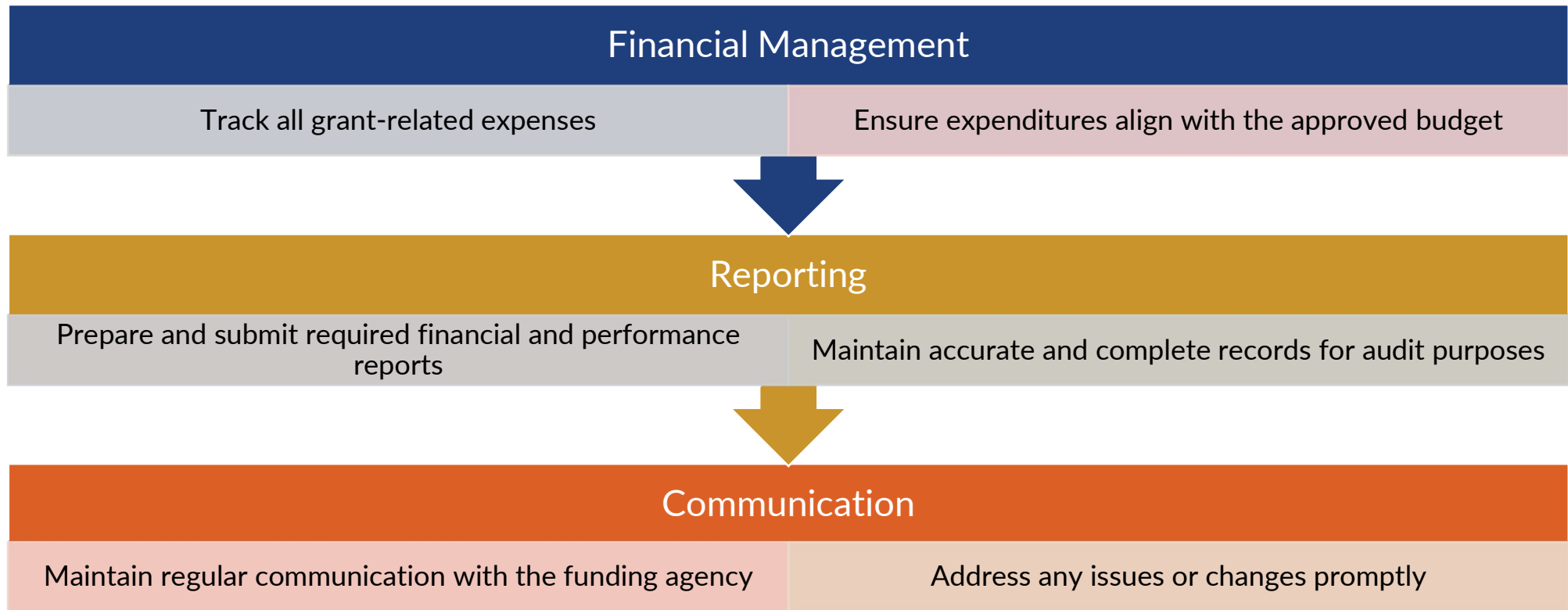


Grant Administration: Tips for a smooth process



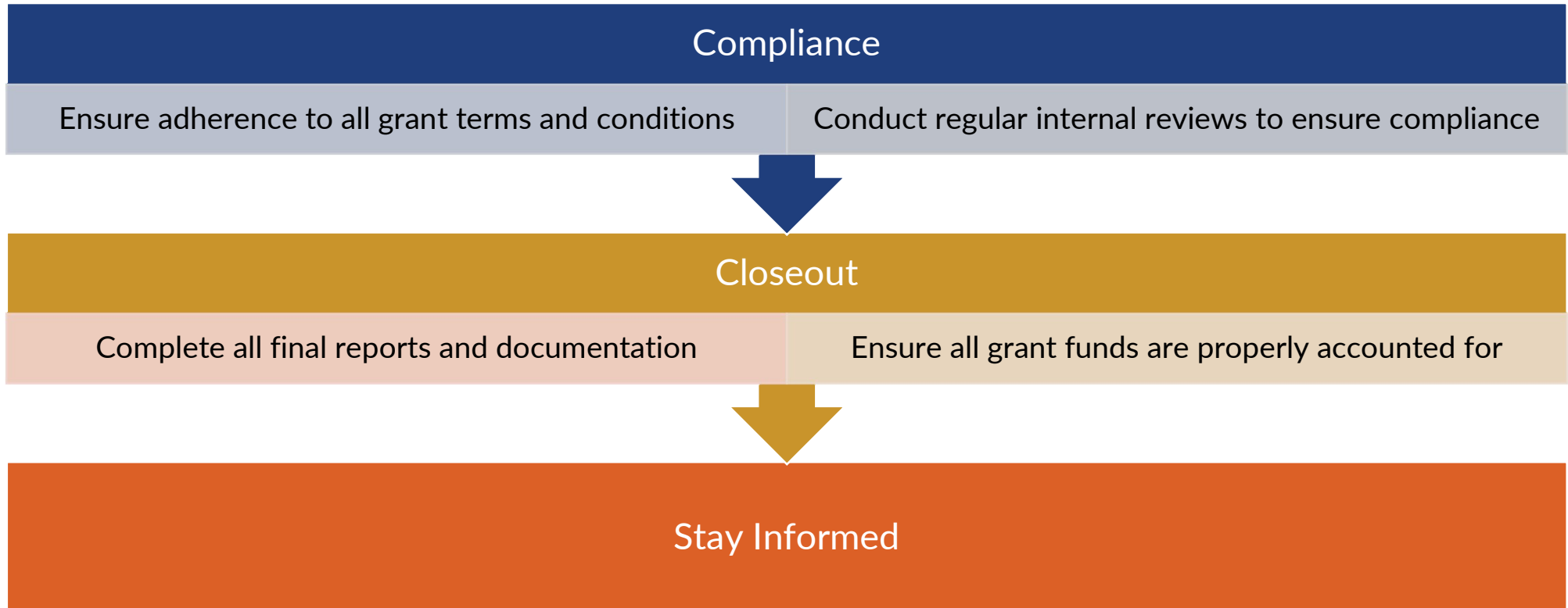


Grant Administration: Tips for a smooth process (cont.)





Grant Administration: Tips for a smooth process (cont.)



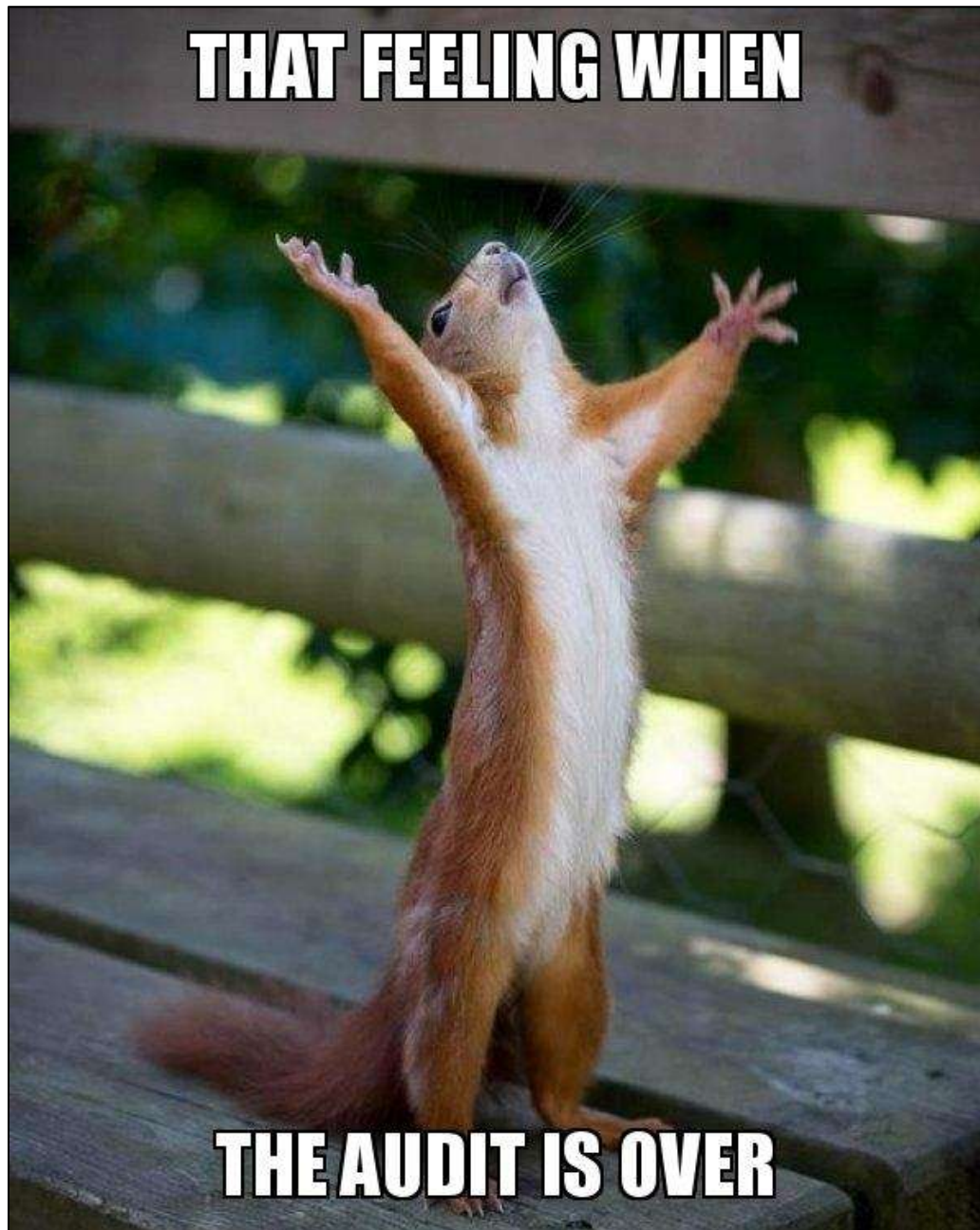


Grant Resources

- Grant/award agreement
- Granting agency
- OMB Compliance Supplement
- Uniform Guidance – 2 CFR 200



After the Audit





Other Communications from your Auditor





Thank you!