



Getting It Right: Avoiding Common Financial Reporting Deficiencies

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Letter of Transmittal

- Dated before independent auditor's report
 - CAFR can't be transmitted before audited
- Includes superseded recommended contents
 - Topical discussions of cash management, risk management, and pension plans
 - Current recommendations are long-term financial planning and relevant financial policies



Independent Auditor's Report

- Excludes budgetary comparison presented as a basic financial statement
 - Opinion must address budgetary comparisons presented as basic financial statements
- Does not address coverage of all *schedules* in the financial subsection
 - Must provide at least “in relation to” coverage
 - Budgetary comparison schedules
 - Individual fund presentations
 - Other miscellaneous schedules



Management's Discussion and Analysis (MD&A)

- Scope of the analysis is not comprehensive
 - Must address both governmental and business-type activities
 - Must address major funds beyond the General Fund



Management's Discussion and Analysis (MD&A)

- Budget analysis for the general fund is not comprehensive
 - should address variances between both the:
 - Original and final amended budget
 - AND
 - Final amended budget and actual results
- In general, analysis often superficial rather than insightful
 - Should explain the underlying reasons for significant changes and variances



Management's Discussion and Analysis

- Data for comparative basic financial statements is incomplete
 - Each year must comply with the authoritative standards
 - Essentially able to stand alone as a set of basic financial statements.
 - Include condensed financial data for each of the last 3 years
- Excludes discussion of capital assets and long-term debt activity
 - Reference to notes does not replace discussion



Component Units

- Component units are blended when they provide services to citizens.
 - Blending proper only when services are to the government as an administrative entity
- Data is incorrect or incomplete
 - Equity should articulate
 - Balance sheet should balance



Statement of Net Assets

- Net pension/OPEB obligation are netted with pension/OPEB assets
- Net pension/OPEB obligation not presented as long-term
 - Should be noncurrent in classified approach
 - Should be reported as “due in more than one year” under the relative order of liquidity
- Debt not net of related premiums and discounts
 - Should be netted to present debt carrying value



Statement of Net Assets

- Miscalculation of net assets, invested in capital assets, net of related debt
 - Unspent proceeds handled incorrectly
 - Bond issuance costs not excluded
 - Accrued liabilities not excluded
 - Intangible assets not included
 - Refunding bonds not included when refunded debt was capital-related



Statement of Net Assets

- Restricted net assets presented at insufficient level of detail
 - Should be presented by major category
 - Display on the face of the statement of net assets
 - Disclosure can not substitute for display (see Q&A 7.22.8)



Statement of Activities

- Recipients of shared taxes report them as general revenues
 - Not a tax from viewpoint of recipient
 - Should be classified as program revenue (if restricted to a function) otherwise it is general revenue
- Capital outlay presented as a governmental activities functional category
 - Detail of expenses should be by function not character



Statement of Activities

- Includes special items that are not significant
 - Significance of the special item is judged based on where it is reported (Q&A 7.67.2)
 - Item can be significant in the fund financial statements but not the government-wide (and vice versa)



Statement of Activities

- Intergovernmental expenses presented as a separate function
 - Expenses should be by function except for extraordinary and special items
- Significant “other” program revenues reported
 - If other has become significant breakout additional revenue line items



Fund Financial Statements

- Funds that meet the threshold of a major fund are reported as nonmajor
 - Calculation to determine major funds must be performed each year
 - Classification can change from one fiscal year to the next without any consistency concern
 - Threshold applies to the final numbers reported in the fund financial statements
 - A single fund for external financial reporting that aggregates several subfunds may meet the threshold



Fund Financial Statements

- Reconciliations to government-wide financial statements have inadequate detail
 - Detail should be provided for combined or net reconciling items
 - If not displayed the detail should be in the notes to the financial statements



Fund Financial Statements

- Reconciliations to government-wide financial statements have inappropriate focus
 - Need to reconcile the period's changes
 - Changes in fund balances-governmental funds v. changes in net assets-governmental activities
 - Changes in net assets-enterprise funds v. changes in net assets-business-type activities



Governmental Funds

- Report liabilities that are not due and payable as of the end of the fiscal year
 - Compensated absences (determination made based on whether the employee separated from service on or before fiscal year end)
 - Claims and judgments



Governmental Funds

- Current and advanced refundings are not shown gross on the operating statement
 - Debt issuance should be an other financing source
 - Use of the proceeds for the refunding should be an other financing use



Governmental Funds

- Premiums and discounts netted with the other financing source for the face value of the debt
 - Separate other financing source for premium
 - Discount should be a separate other financing use



Governmental Funds

- Other financing sources/uses reported for items not identified in GAAP
 - Other financing sources are the issuance of long-term debt and premiums, material sales of capital assets (unless they qualify as a special item), proceeds from insurance recoveries, interfund transfers in, payments on demand bonds reported as a governmental fund liability
 - Other financing uses are original issue discounts on the issuance of debt, the application of the proceeds of the refunding bonds to refund the existing debt, interfund transfers out, and reclassification of demand bonds as a governmental fund liability



Proprietary Funds

- Presentation using the classified approach is not consistent with the government-wide relative order of liquidity approach
 - Current liabilities should correspond to the related amounts reported as due within one year
 - Noncurrent liabilities should correspond to the related amounts due in more than one year
- Restricted net assets presented at insufficient level of detail
 - Same issue as discussed earlier in the context of the government-wide statement of net assets



Proprietary Funds

- Capital contributions inconsistently reported between the proprietary fund and government-wide financial statements
 - No difference in measurement focus between these statements so the amounts should be identical
- “Negative capital contributions” reported
 - Capital contributions is a revenue category and should only report revenues



Proprietary Funds

- Miscellaneous or other cash flows are included in an inappropriate category (e.g., noncapital financing)
 - If the definition of any of the four categories is not met the cash flow is reported in operating activities as the residual category
- Noncash items not included on the statement of cash flows
 - Include items that are not cash flows, meet the definition of a category other than operating activities, and affect reported assets and/or liabilities



Fiduciary Funds

- Pension plans and OPEB plans are not reported in separate funds as required by GAAP
- Investments for pension and OPEB plans not at sufficient level of detail in the statement of net assets
 - Principal subdivisions should be displayed



Fiduciary Funds

- On-behalf payments made direct to a pension plan not reported as revenues/expenditures by employer government
 - On-behalf payments for salaries and benefits of employees must be reported by the employer government
 - State contributions direct to a pension plan for teachers employed by school districts
 - Reimbursements from Federal government under Medicare Part D



Notes to the Financial Statements

- Generic description of the criteria used to include component units
 - Criteria needs to be specific to the component unit whether its blended or discretely presented
- Relevant investment policies for various applicable risks are not disclosed (credit risk, concentration risk, interest rate risk, foreign currency risk)
 - Needs to be an adopted policy not a description of practice
 - If no such policy, disclose that fact



Notes to the Financial Statements

- Changes in long-term liabilities netted
 - Increases and decreases should be separately displayed
- New disclosures required by GASB Statement No. 50 are missing or inadequate
 - Current year's schedule of funding progress should be in the notes
 - Reference should be made to multiyear information in RSI
 - For plans, actuarial assumptions should be in the notes



Notes to the Financial Statements

- APC and employer contributions information with inappropriate focus
 - Disclosures should focus on APC (ARC as adjusted for cumulative over/under funding)
 - RSI for schedule of employer contributions should focus on ARC



Notes to the Financial Statements

- OPEB contributions not properly determined resulting in problems with disclosures
 - Contributions include:
 - Payments of benefits directly to or on behalf of a retiree or beneficiary
 - Premium payments to an insurer
 - Assets transferred to a trust, or equivalent arrangement



Notes to the Financial Statements

- Missing disclosures for pollution remediation liabilities
 - For pollution remediation liabilities and recoveries the disclosures include:
 - The nature and source of the obligations (for example, federal, state, or local laws or regulations)
 - The amount of the estimated liability (if not apparent from the financial statements), the methods and assumptions used for the estimate, and the potential for changes (e.g., price increases/ reductions, technology changes, or law changes)
 - Estimated recoveries reducing the liability
 - For liabilities, or portions thereof, not yet recognized because they are not reasonably estimable a general description of the nature of the remediation activities



Notes to the Financial Statements

Incomplete disclosures for endowments

- Required disclosures include:
 - The amount of net appreciation on investments available for expenditure
 - How available amounts are reflected in net assets
 - State law governing the ability to spend net appreciation
 - Policy for authorizing and spending investment income



Required Supplementary Information

- Budgetary comparisons go beyond the allowed scope
 - May only include general fund and major special revenue fund budgetary comparisons in RSI
 - May not include other governmental fund types or nonmajor special revenue funds
 - In a CAFR these are other supplementary information



Required Supplementary Information

- Budgetary disclosures not in the appropriate location
 - If budgetary comparisons are RSI the disclosures are notes to the RSI
 - However, any significant violation of finance-related legal provisions must always be included within the notes to the financial statements



Required Supplementary Information

- Funding progress incomplete when a separate single-employer or agent multiple-employer postemployment benefit plan report is not issued
 - Employer reporting the pension trust fund must include six years of funding progress information



Other Supplementary Information

- Necessary budgetary comparisons missing for nonmajor special revenue funds, debt service funds, capital projects funds, and permanent funds
 - Pre-GASB 34 rule still applies. CAFR must have a comparison for any:
 - Governmental fund
 - Appropriated/legally adopted
 - Annual/Biennial operating budget



Other Supplementary Information

- Inadequate detail for the budgetary comparisons
 - Must be at the legal level of budgetary control for comparisons only shown in OSI (nonmajor special revenue funds, debt service funds, capital projects funds, and permanent funds)
 - General fund and major special revenue funds need schedules in OSI if comparisons mandated for basic financial statements do not have detail at the legal level of control



Other Supplementary Information

- Statement of changes in assets and liabilities of the agency funds missing
- Combining statements do not trace to the related column in the basic financial statements



General

- Problems with articulation of amounts throughout the report
 - MD&A to basic financial statements
 - Operating statements to balance sheet
 - Fund financial statement reconciliations to government-wide financial statements
 - Statistical section to basic financial statements



Statistical Section

- Miscalculation of debt service as a percentage of noncapital expenditures for governmental funds
 - Debt service = principal + interest
 - Should not include issuance costs
 - Noncapital = total expenditures - expenditures that are capitalized for government-wide financial statements
 - Calculated for conversion from modified accrual to accrual basis



Statistical Section

- Incomplete information presented for:
 - Largest own-source revenue (e.g., property tax or sales tax)
 - Information for second own-source revenue that is electively presented
 - No need for property tax collections unless it is largest own-source revenue or information is electively presented
 - All applicable tables must be included for each revenue source that is presented



Statistical Section

- When applicable, both per capita debt ratios are not presented
 - Total outstanding debt
 - All types of debt
 - Both governmental and business-type activities
 - Total general bonded debt



Statistical Section

- Narratives missing:
 - Description of the five objectives
 - Explanation of why 10 years of data was not included
 - Atypical trends and anomalous data
 - GASB Statement No. 44 identifies four types of narrative explanations that should be included



THANKS FOR COMING

See you next year in:

San Antonio, Texas

May 22-25, 2011