

## Annual Reporting

### AGENDA

#### Types of financial reporting

##### Basic Financial Statement Accounting

- Regulatory
- Other Comprehensive Basis of Accounting (OCBOA)
- Generally Accepted Accounting Principles (GAAP)

##### Comprehensive Annual Financial Report (CAFR)

#### Common Deficiencies in Financial Reporting

#### Best Practices

## Quick Pole

##### Who prepares:

- Regulatory
- OCBOA
- GAAP
- CAFR's

##### Who prepares:

- Themselves
- Contracts with AOS or CPA Firm?

## OAC § 117-2-03

##### ORC 117.38 - all local public offices must file an annual financial report:

- through the "Annual Financial Data Reporting System" via an entity-specific link, unless the entity has an approved waiver. **(AKA THE HINKLE SYSTEM)**
- (A) electronically filed with AOS and a copy shall be retained by the fiscal officer of the local public office.
- through the "Annual Financial Data Reporting System" via an entity-specific link, unless the entity has an approved waiver. **(AKA THE HINKLE SYSTEM)**
- (B) All *counties, cities and school districts*, including educational service centers and community schools, and *government insurance pools* organized pursuant to section 9.833, 167.01, 2744.081, or 3345.203 of the Revised Code, shall file annual financial reports which are prepared using generally accepted accounting principles. (GAAP)
- (C) Local public offices that use the "Uniform Accounting Network" shall file their annual financial reports in accordance with the guidelines established by the "Uniform Accounting Network."
- (D) All other local public offices who do not prepare their annual reports using generally accepted accounting principles or another comprehensive basis of accounting shall file their annual financial reports on the regulatory basis prescribed by the auditor of state. If the auditor of state has not prescribed an annual financial reporting format for a type of local public office, those public offices shall file financial statements annually with the auditor of state, using the format used by the local public office.

Last Updated/Effective: 3/31/2017

#### Sample of other entities that are required to file annual financial statements with AOS under OAC § 117-2-03 (See Bulletin 2015-017). Can file using the Regulatory Basis of Accounting

- |   |                                |
|---|--------------------------------|
| • Agricultural Society                  | • Law Library                  |
| • Airport                               | • Mental Health Board          |
| • Cemetery                              | • Park District                |
| • Community Based Correctional Facility | • Regional Airport Authority   |
| • Conservancy District                  | • Regional Planning Commission |
| • Fire/EMS District                     | • Solid Waste District         |
| • General Health District               | • Water – Sewer District       |

## GAAP/OCBOA Basis

#### To be a Complete Set of F/S-GAAP/OCBOAP

##### Per AOS Bulletins 2015-007 (updated Feb. 2017), GAAP annual reports filed per RC 117.38 must include:

- Governmental Entities (including government nonprofit entities) filing GAAP, OCBOA Cash or OCBOA Modified Cash basis:
  - Management's Discussion & Analysis (required for GAAP; optional for OCBOA Cash or OCBOA Modified Cash)
- Basic Financial Statements
  - Government-Wide Financial Statements
  - Fund Financial Statements
  - Notes to the Basic Financial Statements
- Any other Required Supplementary Information (RSI) (GAAP only)

## Regulatory Basis

#### To be a Complete Set of F/S-GAAP/OCBOAP

- Presentation is defined by regulatory agency (Auditor of State)
- Include applicable set of Financial Statements-entity based (depending if Gov'tl or Enterprise type)
- Include Note Disclosures
- Financial statement shells (All 3 Basis of Accounting), including footnotes are available on the Auditor's website.
  - <https://ohioauditor.gov/references/shells.html>

## Impact of not filing correct F/S – ORC/OAC

- 🔔 Ohio Rev. Code § 117.38 allows the AOS to levy a penalty of \$25 per day (\$750 maximum) for those entities that fail to file properly or on time. The statute further enables the AOS to grant extensions to the filing deadline and to waive penalties upon receipt of the report.
- 🔔 Hinkle System Filing Requirements (audit ready F/S)
  - GAAP Mandated deadline is 150 days after year end
  - Cash Basis is 60 days after year end (even if you are a GAAP mandated entity and you file cash basis F/S)

## Impact of not filing correct F/S – ORC/OAC

- 🔔 There are various Opinion Report Modifications, Audit Findings and/or Management Letter comments for:
  - Filing the wrong type of F/S per the OAC
  - Filing an incomplete set of F/S
  - Filing a "draft" set of F/S (ie not ready for audit)
  - Filing late

## Regulatory vs. OCBOA vs. GAAP

- 🔔 Effect on Financial Statement Opinion – GAAP required entity
  - Regulatory basis = Adverse
  - OCBOA = Emphasis of Matter paragraph for departure from GAAP and a unmodified opinion covering OCBOA (*substantially conforming with*)
  - GAAP = Unmodified
- 🔔 Effect on Financial Statement Opinion – GAAP not required
  - Regulatory = Dual Opinion (Adverse for GAAP but Unmodified for Regulatory)
  - OCBOA = Unmodified (*substantially conforming with*)

## The MD&A

- 🔔 GAAP – Required
- 🔔 OCBOA – Optional, however everyone is doing it
- 🔔 Regulatory – Not required
- 🔔 Brief, objective, & easily readable summary of govt's financial activities (short-term & long-term)
- 🔔 The Minimum is the Maximum for the MD&A
  - Avoid opinions, projections and "what-if" scenarios

## Purpose of MD&A

- 🔔 To provide a narrative of what happened during the year and/or as compared to the prior year
- 🔔 Should summarize, rather than repeat, the detailed information presented in the F/S and notes
- 🔔 Discuss/analysis of both *positive* and *negative* aspects
- 🔔 Based on *currently known* facts, decisions, conditions as of date of **auditor's opinion report**
  - May require updates once your audit nears completion

## MD&A – Examples of Analysis

- 🔔 Increase/Decrease in Cash Balances?
  - Increase-Issued debt for a project and still have unspent proceeds
  - Decrease-Prior Year unspent proceeds spend in current year
- 🔔 Increase in Capital Assets?
  - Construction project
- 🔔 Increase in Property Tax Revenues
  - Passed a levy to fund the construction/pay the debt off
- 🔔 Increase in Expenses
  - Negotiated payroll increase

## Who Prepares MD&A?

- 💡 Government's financial managers are "responsible"
- 💡 Even if prepared by a compilation team (AOS or a CPA firm), it's still responsibility of the government
  - This is true for everything the audit opinion covers

## Financial Statement Elements - GAAP/OCBOA

- 💡 **Entity-Wide Financial Statements - Include Gov'tl and Business Type Activities consolidated by "type"**
  - Statement of Net Position
  - Statement of Activities
- 💡 **GAAP – Accrual Basis of Accounting**
- 💡 **OCBOA – Cash Basis of Accounting**

## Financial Statement Elements - GAAP/OCBOA

- 💡 **Fund Financial Statements**
  - Balance Sheet/Statement of Fund Net Position (Title will vary - Gov'tl/Enterprise/Fiduciary Fund Type)
  - Operating Statements (Title will vary- Gov'tl/Enterprise/Fiduciary Fund Type)
- 💡 **GAAP**
  - Gov'tl Funds will use the "Modified" Accrual Basis of Accounting
  - Enterprise & Fiduciary Funds will use the Accrual Basis
- 💡 **OCBOA – Cash Basis of Accounting**

## Financial Statement Elements - GAAP/OCBOA

- 💡 **Both Basis of Accounting will include:**
  - Reconciliations between the Entity-Wide F/S and the Fund F/S for Governmental Activities/Funds
- 💡 **Budgetary Basis Statement (GAAP/OCBOA) for the General Fund and any "major" Special Revenue Fund (qualifications to be discussed later)**
  - Budget (Original and Final) vs Actual for Receipts and Expenditures (which will include the current year o/s encumbrances)
- 💡 **Exception:**
  - The Budgetary Statements "may" be included after the Note Disclosures, but would be referred to as a "Schedule".

## Major Fund Reporting – GAAP/OCBOA

- 💡 **Focus of the Fund F/S is on major funds**
  - General Fund is ALWAYS a major fund
- 💡 **Governmental and/or Enterprise Funds must be reported as major if they meet a certain criteria**
  - Other governmental and/or enterprise Funds not meeting the criteria may still be reported as major – at the government's discretion
- 💡 **Internal service funds and Fiduciary funds CAN NEVER be major funds**
  - Consolidated within 1 column individually by type (I/S, Private Purpose Trust and/or Agency Funds)

## Major Fund Reporting – GAAP/OCBOA

- 💡 **GASB 34 paragraph 76 states:**
- 💡 The reporting government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual **governmental and enterprise funds** should be reported in separate columns as major funds based on these criteria:
  - a. Total assets + deferred outflows, liabilities + deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type (that is total governmental or total enterprise funds), **AND**
  - b. Total assets + deferred outflows, liabilities + deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- 💡 In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund. Ex. Funds receiving tax monies, large project funds or debt funds.

## Exercise

Which of the following statements would qualify as an MD&A analysis?

- A. Sales tax revenues decreased by five percent during the period.
- B. Sales tax revenues decreased because of a substantial decline in motor vehicle sales at local car dealerships.
- C. Sales tax revenues decreased more sharply than revenues from fees and charges during the period.
- D. All of the above

## Exercise

What should be the focus of the analysis of budgetary variances?

- A. General fund
- B. Major special revenue funds
- C. All governmental funds
- D. Both A and B

## Exercise

Which of the following might properly be addressed in the MD&A?

- A. Potential award of a major grant
- B. Negotiations to attract a new employer
- C. Plan to raise the local option sales tax
- D. All of the above
- E. None of the above

## Financial Statements-Accounting Basis

OCBOA and Regulatory use the "Cash" Basis of accounting (ie when cash comes in/goes out)

- Could use a "modified" cash basis for various transactions
  - Investments, Internal Receivables/Payables, etc

GAAP uses a Measurement Focus & Basis (accrual/modified accrual) of Accounting

- Measurement Focus – determines what is measured in a set of F/S (Asset, Liability, Deferred Inflow/Outflow)
- Basis of Accounting – determines when recognition should take place (Revenues and Expenditures/Expenses)

## Measurement Focus

Describes the types of transactions and events that are reported in the various financial statements

- "Economic" vs "Current Financial" resources
- "Economic" Resources (Short term and long term)
  - Like private sector
  - Reports transactions/events ("what") that change a Govt's economic resources (ex. cash, capital asset and long-term liabilities)

## Measurement Focus (Continued)

"Current" financial resources (short term only)

- Reports transactions/events that change the resources that are available for spending in the near future (ex. Cash, A/R). Cash or readily convertible to cash
- "Available" – Governments determine the period as to when resources are typically collected, soon enough after year end, in order to be available to pay obligations of the current period (most commonly 30 or 60 days).
  - If received after this available period, then the receivable will be offset to Deferred Inflows (modified accrual basis)

## Basis of Accounting - GAAP

- 1 Establishes criteria governing the "timing" or when recognition of transactions and events occur.
- 2 Accrual and Modified Accrual Basis
  - Accrual Basis – Transactions/events are recognized when they occur, regardless of when cash is received/dispensed (revenue and expenses). Similar to the private sector.
- 3 Combining the Accrual Basis with Economic Recourses Measurement focus you will recognize all assets, liabilities, deferred inflows/outflows, revenues and expenses (similar to the private sector).

## Basis of Accounting – GAAP (Continued)

- 4 Modified Accrual Basis:
  - Revenues are recognized only to the extent that they are susceptible to accrual (Both measurable and available to finance expenditures of the current period)
  - Expenditures are recognized, typically when due. However there are multiple exceptions (discussed later)
- 5 **Modified Accrual – Current Financial Resources measurement focus will exclude:**
  - Long term assets (capital assets) and long term liabilities (debt)
  - Certain deferred inflows and outflows (ex. items associated with issuance of debt and the new GASB 68/71 accruals)

## Basis of Accounting – GAAP (Continued)

Line Item	GAAP - Accrual	GAAP- Modified Accrual	GAAP- Agency (Accrual)	OCBOA- "Cash"	Regulatory "Cash"
Revenues	X	X		X	X
Expenses/ Expenditures	X	X		X	X
Cash	X	X	X	X	X
Receivables	X	X	X		
Capital Assets	X				
Payables	X	X	X		
Pension Liab	X			Notes	
Comp Abs	X				
Long-term Debt	X			Notes	Notes
Fund Balance		X		X	X
Net Position	X				

## Basis of Accounting – Revenue Categories, Transactions & Events Recognition (GAAP)

- 1 Exchange and exchange-like transactions
- 2 Nonexchange transactions
- 3 Extraordinary and special items

## Exchange/Exchange Like

- 1 Transactions in which each party receives and gives up essentially equal values
  - Charges for Service (Sewer and Water)
  - Tuition and Fees (Education)
  - Lease Revenues (Building)
  - Special Assessments (Sidewalks)
- 2 A Receivable is recognized when the exchange takes place (for both basis of accounting)
- 3 Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be "available"

## Nonexchange Transactions

- 1 **Occur when a government gives/receives something without an exchange of equal value**
  - Derived tax revenues
  - Imposed nonexchange revenues
  - Government-mandated nonexchange transactions
  - Voluntary nonexchange transactions



## Derived Tax Revenues

- ⑤ Governments generate revenues by imposing a tax on certain exchange transactions that they are not a party to
  - Motel Tax
  - Sales Tax
  - Income Tax
- ⑤ Receivable recognized when exchange takes place (net of estimated refunds and uncollectable)
- ⑤ Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”

## Imposed Nonexchange

- ⑤ Governments can generate revenues by assessing without an “exchange” taking place
  - Property Tax
  - Fines and penalties
- ⑤ Receivable recognized as soon as the government obtains an enforceable legal claim (net of estimated refunds and uncollectable)
- ⑤ Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”
  - Exception – If there is a timing requirement as to when resource can be spent (ex. property taxes cannot be spent until year after the lien date)

## Govt – Mandated Nonexchange

- ⑤ One Gov’t mandates another Gov’t to provide a service while offering partial or full funding
  - State Local Gov’t revenues
  - Gas tax
  - Homestead and rollback
  - Grants
- ⑤ Receivable recognized as soon as the government has met eligibility requirements
- ⑤ Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”

## Govt – Mandated Nonexchange (Continued)

- ⑤ Some transactions may come with “Eligibility” requirements that may include:
  - Required characteristics of the recipient
  - Time requirements (when used, or can first be used)
  - Reimbursable – The Most Common (ie. eligible expenditure must first be incurred)
  - Contingent (applies to voluntary nonexchange transactions: ex. matching)

## Voluntary Nonexchange

- ⑤ Not meeting the other types, which are primarily Grant Awards
- ⑤ Receivable recognized as soon as the government has met eligibility requirements
- ⑤ Eligibility requirements may include
  - Required characteristics of the recipient
  - Time requirements (when used, or can first be used)
  - Reimbursable (ie. eligible expenditure must first be incurred)
  - Contingent (applies to voluntary nonexchange transactions: ex. matching)
- ⑤ Revenue recognized
  - Accrual Basis – when exchange takes place
  - Modified Accrual – must also be “available”

## Exercise

- ⑤ Which of the following actions would a Gov’t take upon levying a property tax that is intended to fund the subsequent fiscal year, assuming that the levy constitutes a legally enforceable claim?
  - A. Recognize a receivable
  - B. Recognize a revenue
  - C. Both
  - D. Neither

## Exercise – Match the Revenue to the Proper Classification (using arrows)

### Revenue Example

1. Property Tax
2. Charge for Water Utilities
3. Fines & Forfeitures
4. Sale of Admin Bldg at slightly < FMV
5. Income Tax
6. State-mandated Grant

### Revenue Type

- A. Exchange
- B. Exchange-like
- C. Derived Tax Revenue
- D. Govt-mandated Nonexchange
- E. Imposed Nonexchange
- F. Voluntary Nonexchange

## Extraordinary and Special Items (Receipts or Expenditures/Expenses)

### Extraordinary Items are events and transactions that are:

- Unusual in nature AND infrequent in occurrence
- To be “unusual in nature”
- High degree of abnormality
- Clearly unrelated to or only incidentally related to the activities of the Government
- Ex. Tornado damage in Oklahoma (No) but in Hawaii (Yes)

### Special Item – meets one of the two, however must be within the control of management

- Ex. Sale of a major piece of governmental land/building (may not be unusual but probably infrequent)

## Expenditure Recognition – Gov’tl Funds

### Modified Accrual Basis-Reminder:

- Expenditures are recognized when due and liquidation of the liability normally would require the use of current financial resources (held or received shortly after year end – “available period”)

### Absent explicit GAAP requirements to do otherwise, expenditures are recognized when incurred and due (examples):

- Purchases
- Payroll
- Utilities
- Professional services
- Supplies

## Expenditure Recognition – Exceptions

### Exceptions to the basic rule

- Debt Service (accrued interest payable on LT Debt)
- Certain specified accrued liabilities
- Operating Leases with schedule rent increases (not very common)
- Inventories of supplies (consumption method vs purchase method)
- Prepaids (consumption method vs purchase method)

## Exceptions (Continued)

- **Debt Service** – We learned debt is accounted for under the Economic Resources measurement focus, as a result, accrued interest payable (related to Long Term Debt) covering the accrual period would only be recorded as an expense on the accrual basis of accounting.

- If Short Term debt, record on modified accrual basis.

- **Example:** June 30 year end with a Interest Payments (on LT Debt) Due on 6/1 & 12/1. 1/6 of the interest payment would be accrued on the 6/30 accrual basis financial statements since not “due” at 6/30.

## Exceptions (Continued)

### Certain Specific Accrued Liabilities

- Compensated absences (un-matured)
- Claims and judgments
- Termination benefits
- Landfill closure/post closure care costs

- **These do not meet the “current” financial measurement focus. They are not typically budgeted or paid until they come due for payment. Amounts could be estimated and the due date is known (in the future), however these would be reported on the Accrual Basis financial statements only since not “due” for payment at Year End**

## Exceptions (Continued)

- **Inventories of Supplies and Prepaids** – There is the option to use the "Purchase" method or the "Consumption" method on the Modified Accrual Basis
  - Purchase Method – Recognizes the expenditure when the purchase is made
  - Consumption Method – Recognizes the expenditure when the item/service is consumed
- **Examples:**
  - Insurance
  - Annual maintenance agreements/contracts
  - Road Salt
- **There is NO Option for reporting on the Accrual Basis of accounting. Must use the Consumption Method (reporting "what" and "when" used)**

## Exercise

- **When is an expense first recognized under the accrual basis of accounting**
  - A. When a liability is incurred
  - B. Either when a liability is incurred or when a liability is incurred and liquidation normally is expected to be made using current financial resources
  - C. When payment is due
  - D. When payment is made

## Exercise

- **When is an expenditure first recognized under the modified accrual basis of accounting?**
  - A. When a liability is incurred
  - B. Either when a liability is incurred or when a liability is incurred and liquidation normally is expected to be made using current financial resources
  - C. When payment is due
  - D. When payment is made

## Exercise

- Employees of the general fund accrue \$150,000 of vacation leave prior to the close of the fiscal year end. It is anticipated that \$70,000 of that amount will be used in the following 12-month period (\$10,000 within the first 60 days). How much should be reported as an expenditure of the current period?
  - A. \$150,000
  - B. \$70,000
  - C. \$10,000
  - D. \$0

## What is 7 X 13? No calculators!!!



## MD&A – GAAP & OCBOA

- **Primarily covered by GASB Statement No. 34 (par 8-11)**
  - Sufficient analysis as to "why" not just "what"
  - Entity Level
  - Fund Level
  - Budgetary Level
- **Simply explaining the amount of change is not in accordance with the Standards. Must supply "reasons" (GASB 34 par. 10(c) )**
  - Example of not meeting standards: "Taxes increased \$500,000 or 20% over the prior year".
  - Example of meeting the standards: "Taxes increased \$500,000 or 20% over the prior year due to the passage of a new 5 mil tax levy by the voters in the prior year to retire debt issued for a new building."



## MD&A - GAAP & OCBOA (Continued)

### ➤ MD&A (continued)

- Fund Analysis only discusses the General fund. Analysis should include ALL Major Funds
- General Fund Budgetary Analysis should include:
  - Original vs Final Budgets (Revenue and Expenditures)
  - Final Budget vs Actual (Revenue and Expenditures)
  - To include "reasons" why there were changes/variances
- Amounts do not reconcile to the Financial Statements
- Description of significant capital asset "activity" during the year (GAAP Basis Reporting only)
  - Too often we see C/A increased due to additions exceeded depreciation expense. However there was a major project
- Description of significant long-term debt "activity" during the year

## Financial Statements – OCBOA and GAAP Basis\*

- Capturing "direct" vendor payments (including budgeting)\*
- Budgetary Statements reporting incorrect Budget amounts\*
- Not grossing up transactions\*
  - Property Taxes
  - State Foundation
  - Debt issuance
- Proper Assignment of General Revenues vs Program Revenues on the Statement of Activities\*
  - Program Revenues - Some functional programs are directly financed, in whole or in part, by resources other than taxes and other general revenues. GAAP require that such program revenues be presented separately on the face of the statement of activities.
  - General Revenues - All revenues that do not qualify as program revenues should be reported as general revenues, even taxes whose use is limited to particular functions (e.g. road maintenance)



\*applies to both

## Financial Statements – OCBOA and GAAP Basis\* (Continued)

- Proper identification and reporting of Grants Receivable as it pertains to Revenue Recognition (GASB 33 and GASB 34). Also AOS Bulletin 2001-004
  - ➔ Non-reimbursable vs Reimbursable Grants
- Capturing of Capital Asset additions and disposals
- Capturing of Accounts/Contracts/Retainage Payables

\*applies to both

## Notes-OCBOA and GAAP Basis\*

- Proper identification of Jointly Governed Organizations and/or Joint Ventures (evaluate annually)\*
- Sufficient Detail on Interfund balances and/or Transfers\*
  - Reported by individual Major Funds, nonmajor governmental, nonmajor enterprise, internal service funds and fiduciary funds
  - Purposes
  - Amounts not expected to be repaid within 1 year
  - General description of the principal purposes
    - Additional purpose if:
      - They do not occur on a routine basis
      - Are inconsistent with the activities of the fund

\*applies to both

## Financial Statements-OCBOA, GAAP & Regulatory Basis\* (\*applies to all)

- \*GASB 54 Fund Balance categories reported by "purpose" rather than by "function".

	General Fund	Other Governmental Funds	Total
<b>Restricted for:</b>			
Public Safety Projects *	-	1,807,048	1,807,048
Community Development	-	373,516	373,516
Real Estate Assessment	-	881,854	881,854
Court Computerization	-	65,598	65,598
Other Purposes **	-	921,495	921,495
<b>Total Restricted</b>	-	4,049,311	4,049,311
<b>Assigned for:</b>			
Encumbrances:			
Courts	38,930	-	38,930
Public Safety**	39,612	-	39,612
Other Purposes	13,369	-	13,369
Subsequent Year Appropriations	4,246,410	-	4,246,410
<b>Total Assigned</b>	4,338,321	-	4,338,321
Unassigned	4,014,888	(54,747)	3,960,141
<b>Total Fund Balance</b>	<b>\$ 8,353,209</b>	<b>\$ 3,994,564</b>	<b>\$ 12,347,773</b>

\* This amount includes, most significantly, amounts restricted for felony delinquent care operations and for providing E911 services.

\*\* This amount includes, most significantly, amounts restricted for the dog and kennel operations.

## Notes-OCBOA and GAAP Basis\*

- Long Term Debt – Primary related to Refunded Debt\*
  - Brief description of the refunding transaction
  - Aggregate difference in debt service between the refunded debt and the refunding debt (ie. Refunding Gain/Loss).
  - Economic Gain/Loss on refunding (ie. Net Present Value)
  - Amount of outstanding in-substance "defeased" debt

\*applies to both

## Notes-OCBOA and GAAP Basis\*

### 1 Capital Leases

- NCGA Statement No. 5 and GASB 62 .
- Now we need the accumulated depreciation or NBV reported on Leased Assets.

### 2 Operating Leases

- Reporting requirements under a Cancellable vs Non-Cancellable (GASB 38 and GASB 62).

### 3 Commitment Note\*

- Significant Projects

### 4 Significant Encumbrances (per GASB 54)\*

- By Major Fund
- Aggregate Non Major Funds by Type

### 5 Subsequent Events (through Auditor Opinion Date)\*

*\*applies to both*

## Notes-OCBOA and GAAP Basis\*

### 1 Disclosure of "material" budgetary violations in accordance with ORC for individual funds affected.\*

- Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the ABC fund by \$XXX for the year ended December 31, 20XX.
- Contrary to Ohio law, at December 31, 20XX, the XYZ fund had a cash deficit balance of \$XXX (SR Funds do have exceptions for Schools)

### 2 Various notes being updated for change in contracts, agreements, etc.

- Compensated Absence/Severance Arrangements
- \*Risk Management – Insurance information

*\*applies to both*

## Best Practices for In-House Prep

### 1 Overall Preparation Tips

- ➔ Timely – should be issued within 60 days after year end (non-GAAP entities) or 150 days after year end (GAAP entities)
- ➔ Prepare checklists for preparation and review
- ➔ Prepare request lists for outside departments
  - Include due dates and follow up
- ➔ Coordinate timeline with your external auditors
- ➔ Conduct weekly progress meeting with team
  - Communicate results to your auditors

## Best Practices for In-House Prep (Continued)

### 1 Planning can begin prior to year end

- ➔ Assign project coordinator, identify & assign team members
- ➔ Prepare a timeline
- ➔ GASB updates and new standards implementation
- ➔ Review prior year posted and passed audit adjustments
  - May need to change procedures to ensure they are not repeated

### 2 Things that can be done prior to year-end

- ➔ Roll over prior year ending balances & post reversing journal entries in trial balances
- ➔ Update current issues discussion of MD&A
  - While its fresh in everyone's mind!

## Best Practices for In-House Prep (Continued)

- ➔ Review new funds
  - Determine how they will be reported (fund type, mapped to an existing fund, etc)
  - Evaluate Gov'tl funds for proper Fund Balance Classification (GASB 54)
  - Set up trial balance, add new columns to the financial statements, etc.
- ➔ Update note disclosures that do not require financial statement information
  - Summary of Significant Accounting Policies
  - Risk Management
  - Jointly governed organizations, related organizations, etc.

## Best Practices for Cash Basis Information

### 1 Posting Issues (impacts GAAP Statements as well)

- ➔ Ensure all direct vendor payments (from State or Others) are properly recorded and budgeted for
- ➔ Review new debt issued during the year (including refundings)
  - Review posting in system by comparing to the Sources & Uses statement
  - Post at gross (including premium, discount, issuance costs, etc)
  - Adjust budgets as necessary

### 2 Check revenue and expense classifications

- ➔ Revenue –Taxes vs. Intergovernmental (ex. Homestead & Rollback)
- ➔ Miscellaneous revenue (less of it is better)
- ➔ Debt Payments (proper fund, principal vs. interest)

## Best Practices for Cash Basis Information

- Proper posting of budget information to system
- Transfers and Advances (do they balance?)
- Bank Reconciliations done timely and accurately
  - Errors in your accounting system need identified and corrected in a timely manner
    - Management relies on monthly reports
    - Using inaccurate data to make purchasing and budgeting decisions could = disaster!

## Best Practices for Cash Basis Information (Continued)

- Reconcile all bank accounts
  - Payroll clearing accounts
    - Undetected errors in withholdings could = fines and penalties
  - Segregated accounts
    - Examples: utilities, income tax, sheriff, courts
    - Courts also need to reconcile their book cash balance to an "Open Items" report in their system
- **DO NOT LET THIS FALL BEHIND!**
  - Avoid audit citations (or being deemed **Un-auditable** by AOS)
  - Deter fraud

## Best Practices for Receivables

- Property Taxes Receivable
  - Amended Certificate – Include or exclude homestead/rollback, PPT loss reimbursement
  - Collectability of Delinquents
- Income Taxes Receivable
  - Change in rate and/or allocation for current year to subsequent year
- Grants Receivable
  - Reimbursable vs. Non-reimbursable
  - Completeness
- Resource – AOS Technical Bulletin 2001-004

## Best Practices for Capital Assets

- Capital assets – most common area for audit adjustments
  - Incomplete additions or disposals
  - Exclusion of architect/engineering services from construction projects
  - Leased assets capitalized at incorrect amount or not capitalized at all
  - Vehicles recorded net of trade-in
  - Construction in progress issues
  - Capitalization of Payables

## Capitalization Threshold

- Accounting standards do not need to be applied to items that are of only minimal interest to financial statement users
  - Materiality – only need to report capital assets if they exceed a predetermined amount, commonly known as a *capitalization threshold*
  - GFOA recommends a minimum of \$5,000
  - Governments are required by Ohio Administrative Code (OAC) to report at least 80% of their capital assets
    - Keep this rule in mind if you ever increase your threshold (i.e. increasing your threshold cannot remove more than 20% of amount previously reported)

## Capital Assets vs. Inventory

- Inventory
  - Assets that are consumed in operations and do not extend beyond a single reporting period
    - Examples: office supplies, vehicle maintenance items, fuel
  - Can also include items held for resale
    - Examples: property acquired through liens
  - Cost per item typically does not exceed capitalization threshold

## Capital Assets vs. Inventory

### Capital Assets

- Definition: assets that are used in operations and that have initial useful lives extending beyond a single reporting period
- Reported on the government-wide GAAP financial statements
- Original cost of asset exceeds the capitalization threshold
- Excludes items acquired for the purpose of sale or investment, rather than for use in operations
- Can be either tangible or intangible
  - Intangible examples: software, easements, rights of way, patents

## Exercise - Classifying Transactions

Project	Inventory	Repair & Maint	Capital Asset
Roof Replacement			
Road Resurfacing			
Widening a road from 2 lanes to 4 lanes			
Meters			
Property acquired through lien			
Engineering/architecture fees related to new building			
General & admin costs related to construction of new bldg			
Reconstructing a road using concrete vs. asphalt			

## Updating Capital Asset Additions

- Should be done throughout the year
- Quarterly questionnaires to departments
- Review certain expense accounts for possible additions
  - Just because construction has not started, does not mean you do not have any construction in progress (CIP)
  - All architect, engineering services should be capitalized, including design services, construction manager fees, etc.
- Also be sure to include projects paid by ODOT or other agency directly to the vendor
  - These should be recorded in your accounting system as well

## Identifying Capital Asset Additions

- Meet with Engineer and other key departments
- Review Council/Board minutes for the following:
  - Approval of large contracts - ORC requires approval for most contracts > (\$ various by government entity type)
  - Donations of capital assets (since no cash is involved in these transactions, they will not show up in accounting system)
    - Acquisition Value (NEW – used to be FMV)
    - Example: Contractors/developers donating waterlines, road
    - Applies to assets purchased for \$1

## Identifying Capital Asset Additions (Continued)

- Review any new debt agreements
- New capital leases - must review lease agreement to determine if it is capital lease or operating lease
  - Any 1 of 4 criteria makes a lease capital (most common are transfer of ownership to the Entity at the end of the lease and a bargain purchase option (typically \$1). Also the 75% of life and 90% of value rules.

## Improvements vs Repairs

### Improvements (betterments)

- Provides additional value, which is achieved by one of the following:
  - Lengthening the capital asset's estimated useful life
  - Increasing the capital asset's ability to provide service
    - Example 1: adding an additional lane to a road (increases capacity for traffic)
    - Example 2: reconstructing an asphalt road with concrete (would extend the original useful life of the asset)

### Repairs and maintenance

- Retain value rather than provide additional value (chip and seal, roof replacement)

## Special Example – Roof Additions

### New Roofs

- Assume building has useful live of 80 years, but will need roof replaced in half that time.
- Assume the original roof is included in the cost of the building
- Roof replacement does not lengthen the original useful life of the building, but avoids cutting it in half
- Should be treated as a repair rather than as a replacement

### These types of items should be addressed in your capital asset policy.

## Determining Cost

### Cost basis – cost of assets also include any “ancillary charges necessary to place the asset into its intended location and condition for use” (GASB 34)

- Land – includes any land preparation cost that will have an indefinite useful life
  - Examples: basic site improvements, including excavation, fill, grading
- Demolition costs are added to land values
  - Removal of old buildings are considered land costs because these costs are necessary to get the land in condition for its intended purpose.

## Determining Cost (Continued)

### Shipping and freight charges and installation fees are included in cost

- Two exceptions:
  - Feasibility studies are not capitalizable (because the cost was incurred prior to a determination of feasibility)
  - Training employees to operate an asset is not capitalizable

### Assets acquired where credit was given for “trade-ins”

- Cash paid for new asset plus remaining undepreciated value of asset traded in, if any

## Tracking Construction in Progress

### Can be difficult due to extending over multiple fiscal years

### Do not recommend just recording all expenditures in a construction fund

### Recommend utilizing an excel spreadsheet by vendor

### Certain project costs may be related to items that should not be capitalized

- Particularly furniture & fixtures (filing cabinets, smaller equipment, etc)

## Tracking Construction in Progress (Continued)

### Once the project is complete, each component will have to be added to the appropriate class of assets (building, infrastructure, equipment, etc)

- This can be a monumental task if not tracked during the course of the project!

### Accumulate information for contracts/retainage payable and contractual commitment note at this time

## Identifying Disposals

### Request disposals from departments

- Could include providing a current listing to each department to review, update and return
- Periodic physical inventories (internal or valuation company)

### Review ledgers for certain receipt codes

- Sale of Fixed Assets
- Insurance Proceeds
- Miscellaneous Revenue

### Insurance proceeds could also be indicator of an impairment of a capital asset (discussed later)



## Identifying Disposals (Cont.)

- 💡 **Review lease agreements for maturity**
  - If a lease has matured, do you still have the assets?
  - Did the assets get traded in on new ones?
- 💡 **Review vehicle and equipment purchases made during the year for “trade-ins”**



## Impairments

- 💡 **Definition: a significant and unexpected decrease in the service utility of a capital asset that will continue to be used in operation**
- 💡 **Indicators of a potential impairment**
  - Physical damage requiring restoration of asset
    - Examples: fire, flood damage
  - Changes in technology that negatively impact asset's effectiveness or result in the asset becoming obsolete
  - Change in the manner an asset is being used
    - An instructional building being used for storage (often when a new building is constructed)
  - Construction or internal software development stopped on a project
  - Must be permanent, cannot be temporary

## Best Practices for Capital Assets



## Best Practices for Accounts Payable

- 💡 **Define methodology on preparation**
  - Excel vs. System
  - Set scope (\$\$) or not
  - How far to go into subsequent year
    - Depends on entity's A/P cycle – how long does it take to pay bills?
- 💡 **Training A/P Clerk**
  - Must be done before year end
  - Date goods/services received vs invoice date
- 💡 **Look at open POs, not just what has been paid**

## Best Practices for Compensated Absences

- 💡 **Define and evaluate methodology**
  - Termination vs. Vesting method
- 💡 **Vesting method**
  - Apply to those currently eligible and those EXPECTED to become eligible
    - Based on Entity's history of employee turnover
- 💡 **Do you need to accrue vacation, personal, comp time?**
  - Based on policies/negotiated agreements
  - Carryover allowance

## Best Practices for Interfund

- 💡 **Transfers vs. Reimbursements**
  - May need reclassified on GAAP statements
  - Need to describe purpose for transfers out of any fund other than General
- 💡 **Advances**
  - Short-term vs. long-term
  - Need to evaluate each year if not repaid
  - Conversion to a Transfer
    - Must be approved by governing Board and posted in the ledgers

## Best Practices for Equity

### GASB 54 Fund Balance Classifications

- Applies to all government financial statements, including Regulatory and OCBOA
  - Nonspendable, Restricted, Committed, Assigned and Unassigned
  - Re-assess funds with new primary revenue source (i.e. capital projects funds)
- AOS Bulletin 2011-004 on GASB 54 specific to Ohio

## Best Practices for Equity

### Net Investment in Capital Asset calculation

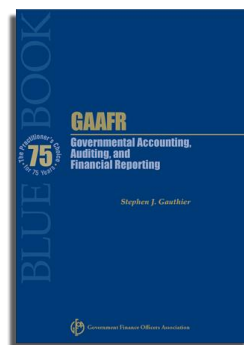
- Exclude unspent debt proceeds
- Exclude accretion on capital appreciation bonds
- Exclude debt not related to capital assets
- Include payables related to capital assets
- Premiums and Discounts follow classification of proceeds

## Best Practices for Notes

### Update Notes each year

- Look at Auditor of State samples
- New accounting principles
- Completeness – new line item on FS probably = new disclosure

## Resources – Blue Book



## GFOA Certificate Programs

### CAFR (Comprehensive Annual Financial Report)

### PAFR (Popular Annual Financial Report)

### Award Program for Small Government Cash Basis Reports

## CAFR – Pros and Cons

### Pros

- High quality report
- Promotes better transparency to the citizens and other stakeholders (ex. banks and investors)
- Credit rating agencies and other interested parties may view the award as a positive factor in decision making
- National GFOA Member benefits
  - Helps ensure compliance with new accounting standards as they change and evolve
  - Training throughout the year, including webinars
  - Technical Support Department

## CAFR – Pros and Cons (Continued)

### Cons

- Cost
- Time Commitment
- Involves more departmental cooperation and coordination

## Common Deficiencies - CAFR

### Statistical Tables (GASB 34 and GASB 44)

- Incorrect amounts used in the calculation of the ratio of total debt service expenditures to noncapital expenditures
- Calculation of ratios of outstanding debt
  - Include for "all" debt (including Notes Payable and Capital Leases)
    - Governmental and Business Type
    - Include premiums, discounts, etc
- Calculation of ratios of net general bonded debt
  - Only include "bonded" debt
  - Calculations should be "net" of resources available at year end restricted for the payment of principal (ie. debt service fund balance on the accrual basis of accounting)

## Common Deficiencies – CAFR (Cont)

### Statistical Tables (GASB 34 and GASB 44)

- Schedule of Direct and Overlapping Debt
  - Include "all" long-term debt, not just bonded debt
  - Only include Governmental Activities
  - Exclude short-term debt
  - Include premiums, discounts, etc.
  - Do NOT include amounts available that are restricted for the payment of principal

## Award Program for Small Gov't Cash Basis Reports

**Eligibility.** If the answer to all of the following questions is **yes**, the government is eligible to submit a report for consideration:

- 1) **REVENUE CEILING.** Does the government report \$25 million or less in revenues for the primary government in its government-wide financial statements (either for the current year or the average of the five most recent fiscal years)?
- 2) **NO GAAP FINANCIAL REPORTS ISSUED IN RECENT PAST.** In the most recent five years, have all of the government's financial statements been prepared on a basis other than generally accepted accounting principles (GAAP)? **ALSO, YOU CAN NOT BE MANDATED TO PREPARE GAAP FINANCIAL STATEMENTS**
- 3) **NO GAAP FINANCIAL REPORTS ISSUED IN RECENT PAST.** In the most recent five years, have all of the government's financial statements been prepared on a basis other than generally accepted accounting principles (GAAP)? **ALSO, YOU CAN NOT BE MANDATED TO PREPARE GAAP FINANCIAL STATEMENTS**

## Award Program for Small Gov't Cash Basis Reports (Continued)

**CONFORMITY TO PROGRAM REQUIREMENTS.** Has the report been prepared using the general guidelines of the Award Program for Small Government Cash Basis Reports, which includes the use of the *modified cash basis of accounting* as defined in the FAQ document listed below? (See program checklists listed below for more detailed information).

<http://gfoa.org/cashbasis>

## QUESTIONS???

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