

FORVIS

Not Again! Avoiding Common Financial Reporting Errors

Arkansas GFOA Conference 2022

Presenters



Rachel Ormsby, CPA

Director

Dallas, TX

rachel.ormsby@forvis.com



Katie Flores, CPA

Senior Associate II

Rogers, AR

katie.flores@forvis.com

GFOA's Certificate of Achievement Program

Participant Categories:

- General Purpose Governments
 - Such as a state, county, city, town, village
- School districts
- Stand-Alone Business-Type Activities
 - Such as public utilities, public colleges and universities
- Pension and Other Postemployment Benefit Systems
 - Such as public employee retirement systems, single employer pension and OPEB plans
- Cash and Investment Pools
 - Such as government investment pools

Formatting and Terminology

- Term “Net Position” used throughout the report rather than term “Net Assets”
[After implementation of GASB Statement 63]

- Net Pension/OPEB Liability rather than Net Pension/OPEB Obligation

Delete the reference to the net other postemployment benefit obligation (NOPEBO) or negative NOPEBO, after implementation of GASB Statement 75.

- Term “Net Investment in Capital Assets” used throughout the report rather than term “Invested in Capital Assets, Net of Related Debt”
[After implementation of GASB Statement 63]

Letter of Transmittal

- Use term “unmodified” rather than “unqualified” opinion when referencing the independent auditor’s opinion.
(Type of auditor’s opinion sometimes referenced in letter of transmittal)
- Date of transmittal letter – no earlier than the date of independent auditor’s report
(transmitting audited financial statements)

Management's Discussion & Analysis (MD&A)

- Discussion of the government's overall financial position should include all applicable financial statement elements (e.g., assets, deferred outflows of resources, liabilities and deferred inflows of resources).

Management's Discussion & Analysis (MD&A)

- Reasons for significant changes in fund balances for all major funds should be provided in the MD&A.
- The analysis should include additional details not just the amounts and percentages of the changes.

Management's Discussion & Analysis (MD&A)

- Amounts reported in the MD&A should agree with the related amounts reported elsewhere with the annual comprehensive financial report.

Management's Discussion & Analysis (MD&A)

- Condensed financial data should present deferred outflows of resources and deferred inflows of resources in separate sections following the required “total assets” and “total liabilities” line-items.

Award Qualification or Denial

Certificate of Achievement for Excellence in Financial Reporting Awards

Awards may be qualified for continuing participants or awards may be denied for initial submissions for the following situations:

- Management's discussion and analysis does not have the necessary detail of governmental activities and business-type activities for the condensed comparative financial data for each of the last two years.
- Two years of condensed comparative financial data should be provided.
- Also, governmental activities and business-type activities should be separately reported.

Basic Financial Statements

- The caption(s) “net pension/OPEB liability” should be indented under the caption ‘noncurrent liabilities due in more than one year.’
 - Unless the pension/OPEB plan’s fiduciary net position is less than the amount of benefit payments expected to be paid within one year.
- Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension/OPEB plan investment earnings in different measurement periods should be aggregated and reported as a net deferred outflow of resources related to pensions/OPEB or as a net deferred inflow of resources related to pensions/OPEB.
 - The notes to the financial statements should disclose the difference between projected and actual earnings on pension/OPEB plan investments that have not yet been recognized in pension expense at a net amount rather than at gross amounts in the employer balances of deferred outflows of resources and deferred inflows of resources for the plan.

Basic Financial Statements

- The amount reported as "changes in net position - governmental activities" in the reconciliation associated with the governmental fund statement of revenues, expenditures, and changes in fund balances should be the same as the amount reported as "changes in net position - governmental activities" in the government-wide statement of activities.

Net Investment in Capital Assets Calculation

- Incorrect calculation of the net investment in capital assets due to some of the following:
 - The deferred amount on refunding should be included in the calculation of the net investment in capital assets.
 - All debt used in the NICA calculation must be issued for the acquisition, construction, or improvement of capital assets capitalized by the issuing government.
 - Not excluding accrued interest on capital-related debt from NICA calculation.
 - Not including retainage payable in the NICA calculation.

Restricted and Unrestricted Net Position

- The liability related to the unspent portion of a debt issuance should be included in the same component of net position as the asset relating to the unspent proceeds.
 - Reporting both within the same classification of net position prevents one classification from being overstated while another is understated by a similar amount.

Statement of Activities

- The names of accounts that are not part of general revenue should not be indented under that title (i.e., contributions, special items, extraordinary items, and transfers).
- Losses on the sale of capital assets of governmental activities should be reported either as an expense of the general government or as a direct expense of the related function or program, as appropriate, depending on the specific circumstances.
- Grants that are restricted to a specific activity/program should be consistently reported between the statement of revenues, expenses, and changes in fund balance/net position and the government-wide statement of activities (i.e., either as operating grants or capital grants, as appropriate).

Governmental Fund Statements

- Use the terminology "issuance of debt" rather than "proceeds from debt."
- Except for certain special situations involving demand bonds, only (1) the issuance of long-term debt and related premiums and discounts, (2) payments made from refunding bond proceeds to escrow agents in advance refunding transactions, (3) material sales of capital assets, (4) proceeds from insurance settlements, and (5) interfund transfers may be reported in the other financing sources and uses category.

Governmental Fund Statements (Continued)

- The amount of the other financing source reported on the statement of revenues, expenditures, and changes in fund balances in connection with the issuance of long-term debt should agree with the amount of the related addition to long-term debt disclosed in the notes to the financial statements.

Governmental Fund Statements (Continued)

- Inventories and prepaid items should be included in non-spendable fund balance.
- Only the general fund may report non-spendable fund balance for long-term loans and notes receivable, long-term interfund receivables, as well as property held for resale.
- In governmental funds other than the general fund, long-term loans, notes receivable, long-term interfund receivables, and property held for resale reported should be included within restricted, committed, or assigned fund balance, as appropriate, based on the limitations placed on the use of the proceeds arising from the collection of the receivables or from the sale of the property.

Governmental Fund Statements (Continued)

- A governmental fund other than the general fund should not report a positive balance of unassigned fund balance.
- Major fund calculations must be analyzed and updated accordingly each year within the annual comprehensive financial report.

Proprietary Funds

- The ending balance of cash and cash equivalents in the proprietary fund statement of cash flows should be traceable to similarly titled account(s) in the proprietary fund statement of net position.
- The noncash portion of capital contributions should be included in the schedule of noncash investing and financing activities.
- All cash flows not properly reported in some other category should be included as part of cash flows from operating activities, regardless of how the related amount is presented (i.e., operating vs. nonoperating) on the operating statement.

Fiduciary Funds

- The title of the Statement of Fiduciary Net Position should refer to a point in time (i.e. June 30, 2022, rather than to a fiscal period, i.e. for the fiscal year ended).
- The title of the Statement of Changes in Fiduciary Net Position should refer to a fiscal period (i.e. for the fiscal year ended, rather than to a point in time such as June 30, 2022).
- If a pension trust fund is reported, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources should be labeled "net position restricted for pensions" in the statement of fiduciary net position.
- If an OPEB plan is reported, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources should be labeled "net position restricted for OPEB" in the statement of fiduciary net position.

Disclosures for Blended and Discretely Presented Component Units

- Not including the full criteria in GASB 61 for why a component unit is blended. A government will often disclose that the governing body is substantively the same as that of the primary government but will fail to disclose a financial benefit or burden or operational responsibility for the component unit.
- Not including the full criteria in GASB 61 for why a component unit is discretely presented. A government may reference that a component unit is fiscal dependent, and not fully disclose if the component unit has the potential to provide specific financial benefits or impose specific financial burdens to the primary government.

Note Disclosures

- The notes should disclose which governmental funds typically have been used in prior years to liquidate the liability for compensated absences.
- If the government is subject to a legal debt margin, the notes should disclose information on the legal debt limit
- The government should disclose the information for each type of asset measured at fair value. A common comment is government should specify the valuation techniques used in the fair value measurement of Level 2 investments.

Note Disclosures (Continued)

- The discussion of the government's policy for eliminating internal activity in the government-wide statement of activities should indicate that interfund services provided and used are not eliminated in the process of consolidation.
- Inventories of supplies should be reported at cost, unless the inventories are held for resale which would be reported at lower of cost or market.
- The notes should disclose significant encumbrances in total by each major fund and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments.
- It is not necessary to disclose the credit ratings of obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

Note Disclosures (Continued)

- Modify the note disclosure to indicate that the general fund is the only fund that reports a positive unassigned fund balance amount. In other government funds it is not appropriate to report a positive unassigned fund balance amount.
- If a government participates in an external investment pool that reports investments at amortized cost, the notes should disclose any limitations or restrictions on participant withdrawals (e.g., redemption notice periods, maximum transaction amounts, ability of pool to impose liquidity fees or redemption gates).
- The specific purposes/functions for fund balances classified as restricted, committed, or assigned should either be displayed on the face of the governmental fund balance sheet or disclosed in the notes to the financial statements.
- Amounts reported in the notes to the financial statements should be consistent with amounts reported on the face of the financial statements.

Note Disclosures: Capital Assets

- The note disclosure should indicate that donated capital assets are reported at acquisition value. Some governments disclose that donated capital assets are reported at fair value.
- It is unclear why the decrease in construction-in-progress is greater than the increase in capital assets.

Note Disclosures: Pension/OPEB

- The notes should disclose which governmental funds have been used in prior years to liquidate pension and OPEB liabilities
- A government should modify the note disclosure to indicate that the contributions made after the measurement date of the net pension/OPEB liability and/or collective net pension/OPEB liability but before the end of the employer's (or governmental non-employer contributing entity's) reporting period will be recognized as a reduction of the net pension/OPEB liability or collective net pension/OPEB liability in the subsequent fiscal period rather than in the current fiscal period.
- The notes should disclose whether the pension/OPEB plan is a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit plan.
- The notes should disclose information about the employer balances of deferred outflows of resources and deferred inflows of resources for each pension plan and OPEB plan.

Note Disclosures: Pension/OPEB

- The notes should provide the aggregate amount for all plans for each of the following items if the total amounts are not otherwise identifiable from information presented in the financial statements:
 1. Pension liabilities
 2. Pension assets
 3. Deferred outflows of resources related to pensions
 4. Deferred inflows of resources related to pensions
 5. Pension expenses/expenditures for the period associated with the net position liabilities
- The notes should include a schedule that presents the net amount of deferred outflows and inflows of resources for each plan that will be recognized in the employer's pension/OPEB expense for each of the subsequent five years, and, at a minimum, in the aggregate for subsequent years.

Required Supplementary Information

- For employers that provide pensions through pension plans that are administered through trusts or equivalent arrangement, the RSI schedules should use “covered payroll” rather than “covered-employee payroll.” note that covered payroll is the payroll on which contributions to a pension plan are based.
- For employers that provide OPEB through OPEB plans that are administered through trusts or equivalent arrangement, the RSI schedules should use “covered payroll” (the payroll on which contributions to the OPEB plan are based) as the measure of payroll, if contributions to the OPEB plan are based on measure of pay. If contributions are not based on a measure of pay, the RSI schedules should use “covered-employee payroll” (the payroll of employees are provided with OPEB through the OPEB plan) as the measure of payroll.

Required Supplementary Information (Continued)

- It is unclear why the covered payroll in the schedule of funding progress equals the amount in the schedule of employer contributions, since the measurement date is different than the government's fiscal year end. The covered payroll in the schedule of funding progress should be annual covered payroll during the period that ends on the measurement date of the pension/OPEB liability. The covered payroll in the schedule of employee contributions should be the covered payroll during the employer's fiscal year.
- ****Note**** Reason to qualify a continuing participant or deny an initial submission – Missing required Pension and OPEB notes and RSI!

Supplementary Information – Combining and Individual Fund Statements and Schedules

- Presentations of information other than combining and individual fund financial statements should be titled 'schedules' rather than 'statements.'
- The amounts reported in the total column on the combining statements should be easily traceable to the corresponding column in the basic fund financial statements.
- A government may not report a negative amount of restricted, committed, or assigned fund balance in any fund.

Supplementary Information – Combining and Individual Fund Statements and Schedules

- Budgetary Reporting
 - Include budgetary comparisons for nonmajor special revenue funds, debt service funds, capital projects funds, and permanent funds that have legally adopted annual budgets.

Legal Level of Budgetary Control

- Reporting at the legal level of budgetary control as established by the governing body (i.e., the level at which management cannot overspend/transfer the budget without the approval of the governing body).
- Disclose at what level of legal level of budgetary control is defined and including clarifications may be useful regarding how to demonstrate compliance at the legal level of budgetary control.

Legal Level of Budgetary Control Examples

- Departmental Level: Resources may be reassigned among the various activities within a department without going to the legislative body for permission, provided that the department's total appropriation is not overspent.
- Department Level (with exceptions): Manager may reassign resources within a department, except resources budgeted for equipment purchases or salaries and benefits.

Supplementary Information: Budgetary Reporting

- Must present supplementary budgetary comparisons for each governmental fund with a legally adopted annual budget.
- As mentioned earlier: including nonmajor special revenue funds, debt service funds, capital projects fund and permanent funds with legally adopted annual budgets.

Award Qualification or Denial

Certificate of Achievement for Excellence in Financial Reporting Awards

Awards may be qualified for continuing participants or awards may be denied for initial submissions for the following situations:

- Not including the budgetary comparison for a governmental fund that has a legally adopted annual budget. A budgetary comparison would also be required if any part of a governmental fund (such as a sub-fund) has a legally adopted annual budget, for instance if a government legally adopts an annual budget separately for a portion or portions of a fund.

Award Qualification or Denial

Certificate of Achievement for Excellence in Financial Reporting Awards

Awards may be qualified for continuing participants or awards may be denied for initial submissions for the following situations:

- Supplementary budgetary comparisons needed for the General Fund and major Special Revenue Funds if the required budgetary comparison (basic statement or RSI schedule) does not provide information at the legal level of budgetary control.
- Budgetary presentations that do not demonstrate legal compliance at the legal level of budgetary control.

Award Qualification or Denial

Certificate of Achievement for Excellence in Financial Reporting Awards

Awards may be qualified for continuing participants or awards may be denied for initial submissions for the following situations:

- Budget to actual comparison for one or more Debt Service Fund, Capital Projects Fund, or Nonmajor Special Revenue Fund included as a basic financial statement or as a schedule in RSI.
- Missing combining statements for a column that aggregates more than one fund. However, if only a single fund is presented in any of the columns, then there is no need to present combining statements.

Statistical Section

- Ratio of debt service as a percentage of noncapital expenditures is not correctly calculated.
 - To calculate the ratio, divide total debt service expenditures (principal and interest only) by total noncapital expenditures.
 - Total noncapital expenditures (the difference between total expenditures and capitalized capital outlay expenditures).
- Also, the amount of capital outlay used to calculate the ratio of total debt service expenditures to noncapital expenditures should be the same as the reconciling item for capital outlay in the reconciliation between the government-wide statement of activities and the statement of revenues, expenditures, and changes in fund balance.

Statistical Section (Continued)

- Amounts reported in the Statistical Section do not trace to the basic financial statements.
- The amounts presented in the debt capacity schedules should be the same amounts reported in the basic financial statements (net of related premiums, discounts, and adjustments).
- Premiums and discounts are not being included in the amounts in the statistical section.

Statistical Section (Continued)

- Total direct debt should include all long-term debt instruments of the governmental activities, including bonds, notes, certificates of participation, loans, and capital leases.
- Usually, the amount of net position restricted for payment of principal used in the calculation of net bonded debt would not be greater than the amount of restricted net position for debt service as reported on the government-wide statement of net position.

Statistical Section (Continued)

- The government should indicate the source of all non-accounting data presented in the statistical section.
- The statistical section table on fund balance for the governmental funds should include an explanation of the nature of the difference from the prior information, for instance before and after GASB Statement 54.

Questions?

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Thank you!

forvis.com

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by FORVIS or the author(s) as to any individual situation as situations are fact specific. The reader should perform its own analysis and form its own conclusions regarding any specific situation. Further, the author(s) conclusions may be revised without notice with or without changes in industry information and legal authorities. FORVIS has been registered in the U.S. Patent and Trademark Office, which registration is pending.

FORVIS

Assurance / Tax / Advisory