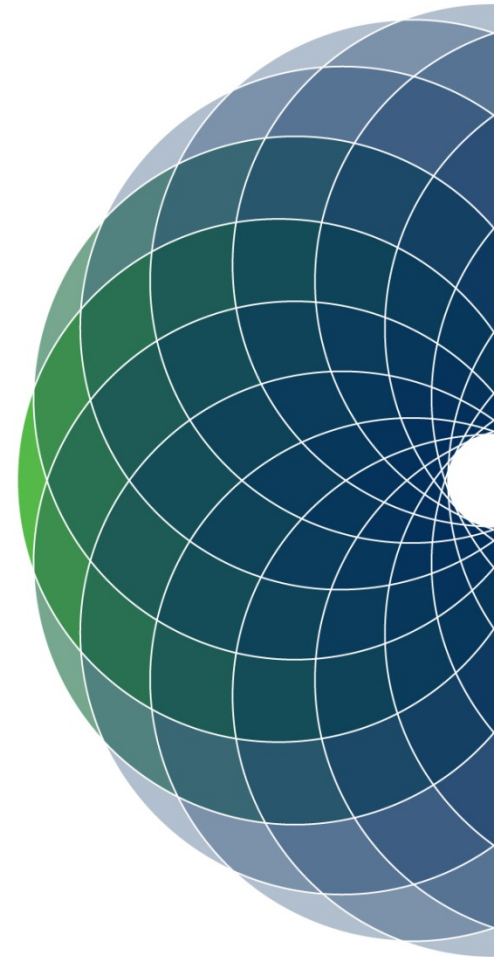


# Preparing a CAFR – Tips and Traps

**George Kennedy**

May 5, 2014



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# Presenting Today

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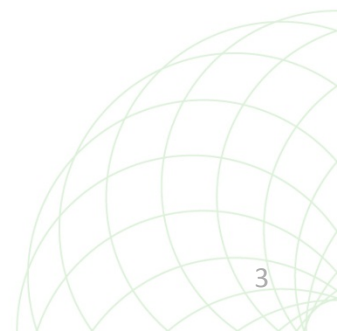
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**Services:** Assurance

**Industries/Specializations:** Government, Not-for-Profit, Manufacturing and Distribution

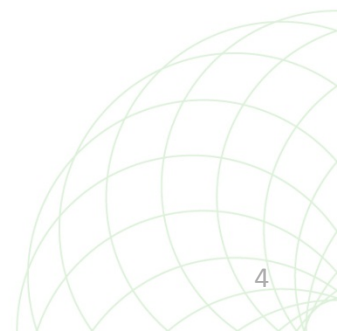
**Professional Overview:**

George focuses on providing assurance services to clients in the government, not-for-profit and manufacturing and distribution sectors. With more than 20 years in public accounting, he has extensive experience in managing and developing professional client relationships.



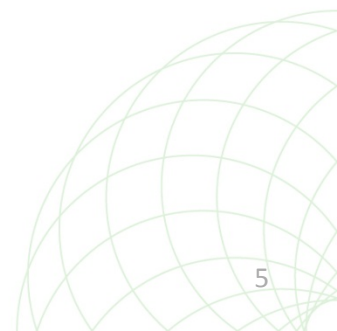
# Objectives

- Review GAAP requirements related to governmental entity financial statements
- Review of CAFR elements
- Provide pointers for CAFR preparation
- Provide resources for CAFR preparation



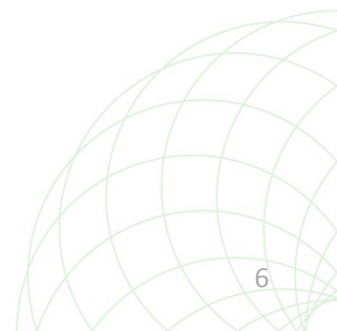
# Is a CAFR Required?

- GASB Cod. Sec. 2200.101 states the following:
  - *Every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR) that encompasses all funds of the primary government (including its blended component units).*



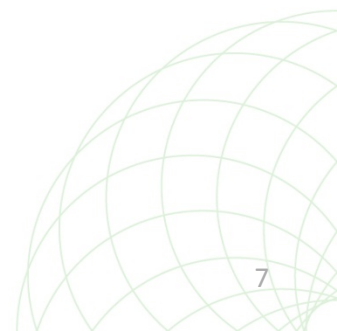
# Is a CAFR Required?

- To be in compliance with GAAP, governmental financial statements must include, at a minimum, the following:
  - Management's Discussion and Analysis (MD&A)
  - Basic Financial Statements
  - Required Supplementary Information
- Commonly referred to as the “liftable” financial statements



# Is a CAFR Required?

- CAFR – Comprehensive Annual Financial Statement
- A broader presentation of GAAP financial statements
  - A CAFR includes the following sections:
    - Introductory
    - Financial
    - Statistical
- ***Encouraged*** but not ***required***



# What Are the Benefits of a CAFR?

- A CAFR represents a more robust presentation of a government's financial statement
- Evidence of the spirit of transparency and full disclosure to citizens and other stakeholders
- Required for participation in GFOA's Certificate of Excellence in Financial Reporting program
- Provides additional information that may be viewed positively by credit rating agencies or other users of the statements
- Flexibility to provide management perspective





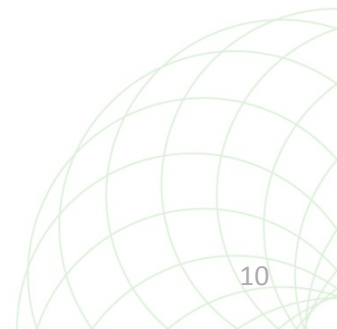
# GFOA Certification Program

- Review by selected members of the GFOA professional staff and GFOA Special Review Committee
- Individuals with expertise in public-sector financial reporting perform the reviews
- Provide constructive feedback
- Helps to ensure required accounting standards are properly implemented
- Provides recognition for the entity and those preparing the CAFR



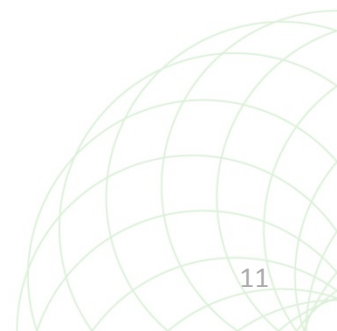
# CAFR Components - Overview

- A CAFR includes the following sections:
  - Introductory
  - Financial
  - Statistical



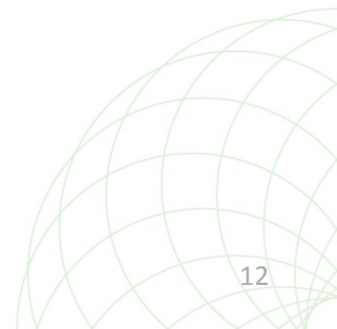
# Introductory Section

- Requirements for the Introductory Section include:
  - List of principal officials
  - Letter of transmittal
  - Organizational chart
  - Certificate of Achievement, if participating in GFOA certificate program



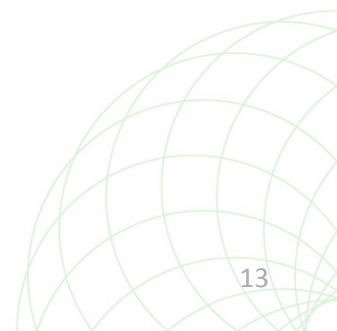
# Financial Section

- The Financial Section provides critical information regarding the financial condition of the government through the presentation of financial statements and schedules note disclosures and narratives.



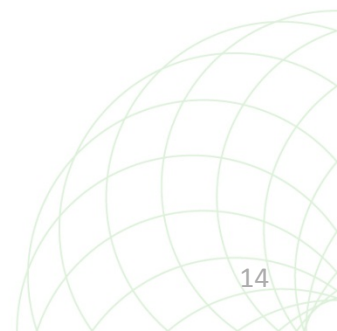
# Financial Section

- The Financial Section should include the following:
  - Independent Auditor's Report
  - Management's Discussion and Analysis (MD & A)
  - Basic Financial Statements
  - Required Supplementary Information
  - Combining and individual fund presentations and supplementary information



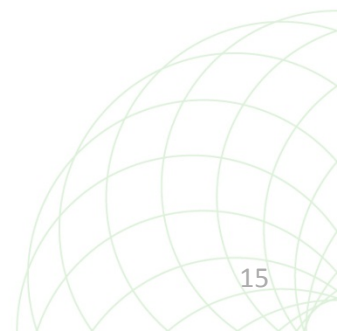
# Statistical Section

- The Statistical Section should include the following:
  - Financial Trends
  - Revenue Capacity
  - Debt Capacity
  - Demographics and Economy
  - Operating Information



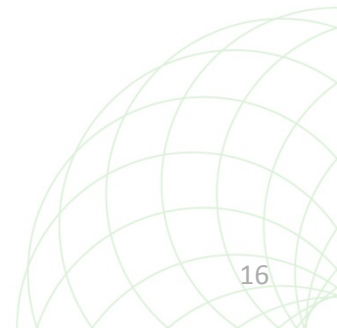
# Optional Sections

- Common examples of optional CAFR sections include:
  - Investment Section (pension plan or investment pool)
  - Actuarial Section (pension plan)
  - Single Audit (federal awards)



# Producing a CAFR – Tips and Traps

- All governmental financial statements provide a solid foundation for building a CAFR
- CAFR sections:
  - Introductory
  - Financial
  - Statistical
- Our focus today will be on Introductory and Statistical sections
- Refer to GASB Cod. Sec. 2200





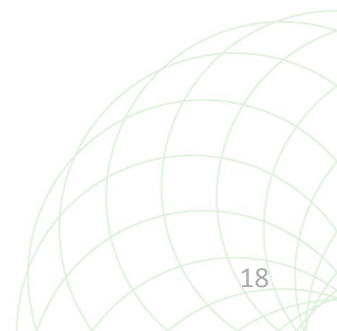
# Introductory Section - Cover

- When producing a CAFR, make sure the cover:
  - Includes both the name of the government and the state (i.e. *City of Example, South Carolina*)
  - Contains the title “Comprehensive Annual Financial Statements”
  - Shows the fiscal period covered
  - Also, encouraged to show who prepared (i.e. *Prepared by: Department of Finance*)



# Introductory Section - Letter of Transmittal

- The letter of transmittal contains four sections:
  - Formal transmittal of the CAFR
  - Profile of the government
  - Economic condition of the government
  - Awards and acknowledgements



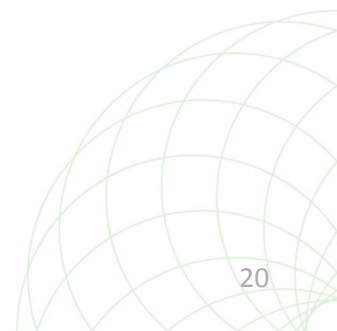
# Introductory Section - Letter of Transmittal

- Preparation of the transmittal letter:
  - Transmittal letter should not repeat information included in MD & A
  - More subjective than MD & A
  - At a minimum, letter should be signed by the government's chief financial officer
  - Should be dated on or after the date of the auditor's report
  - Should appear on the government's letterhead
  - Should be addressed to "The Citizens"



# Introductory Section – Organizational Chart

- Organizational chart:
  - Units presented often tie back to the functions/programs reported in the fund statement of revenues, expenditures and changes in fund balances
  - Can present names of officials in addition to function



# Introductory Section – Principal Officials

- Principal officials:
  - Typically present officials for period covered by the financial statements
  - If presenting names of officials at time of issuance, distinguish them from others
  - While optional, good practice is to
    - Distinguish elected from appointed officials
    - Indicate term of office for elected officials



# Statistical Section

- GASB 44 applies, *Economic Condition Reporting: The Statistical Section*
- Tables are presented in five categories: financial trends, revenue capacity, debt capacity, demographic and economic information and operating information
- GASB 44 prescribes the minimum information to be presented
- Generally not audited, but auditor should review for consistency with the Financial Section of the CAFR



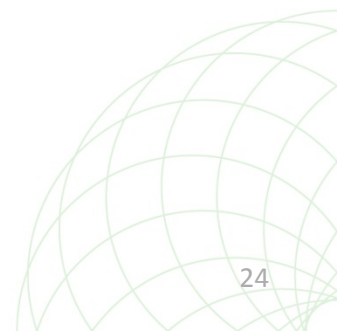
# Statistical Section

- Financial Trends
  - While the three components of net position should be illustrated, there is no requirement to break out the components of restricted net position
  - For governments engaged only in business-type activities, focus should be on operating revenues and expenses and nonoperation revenues and expenses
  - For the fund balance trend schedule, governments are encouraged to replace old categories with the provisions of GASB 54



# Statistical Section

- Revenue Capacity
  - Schedules should focus on own-source revenues
    - Intergovernmental revenue is not included
    - Revenues collected on the government's behalf by another government should be included
  - If no own-source revenues, the revenue capacity schedules are no applicable





# Statistical Section

- Debt Capacity
  - Source for statistical data – [www.bea.gov](http://www.bea.gov)
    - Use tentative data if final data is not available
    - Update tentative data in future years with latest available data
    - If data is unavailable, consider other sources or develop an estimate based on trends
  - Debt capacity schedules should not include other long-term liabilities and accrued obligations



# Statistical Section

- Demographic and Economic Information
  - Information should be as up-to-date as possible
    - Consider alternative sources of information if current information is not readily available
  - For principal employers, names and number of employees is preferable
    - Consider alternative presentations if necessary
      - Range of employees
      - Type of employer (*Retail, Manufacturing, Finance*)
      - Identification without naming specifically (*Employer A*)



# Statistical Section

- Operating Information
  - Information on employees should typically be by function unless an alternative presentation is more meaningful
    - Can be based on FTE or simple headcount
    - Can be average or end of year
    - Be consistent year-to-year
  - Operating indicators
    - Only required to present one for each function
    - Not intended to be a burden – should be information already being collected by the government



# Statistical Section - General

- Narrative explanations are encouraged when necessary, such as explanations:
  - About the objectives of statistical information in general and the five categories of information
  - About basic concepts that might be unfamiliar
  - To identify relationships between information presented within the tables and between the tables and the basic financial statements
  - Explanations of unusual trends or data that financial report users would not otherwise understand



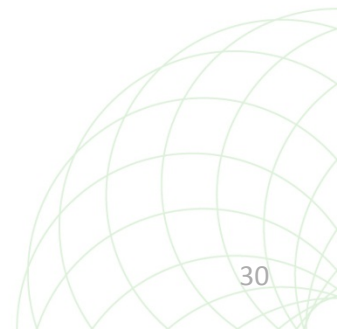
# Statistical Section - General

- The focus of the statistical section should be on the primary government
- Sources for information not drawn from the financial statements or notes should be indicated
- Governmental entities have freedom to format the statistical section using their discretion



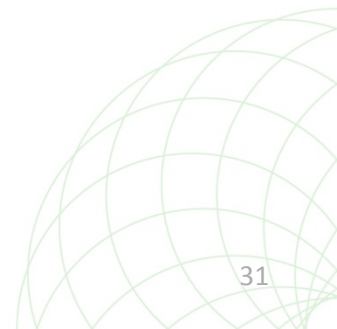
# Best Practices

- Financial statement issuance should be timely – generally within 6 months of fiscal year end
- Consider posting an electronic version of the CAFR on the government's website
- Formulate a process for CAFR production, particularly for first year; refine as needed to improve
- Address all GFOA comments in subsequent year CAFR



# CAFR Preparation Resources

- GAAFR (Governmental Accounting, Auditing and Financial Reporting) – aka the Blue Book
- AICPA Practice Aids and Checklists ([www.aicpa.org](http://www.aicpa.org))
- GFOA example CAFR  
(<http://www.gfoa.org/downloads/GFOA-AppendixD-SampleCAFR.pdf>)
- GFOA reviewer's checklist  
([www.gfoa.org/downloads/generalpurposechecklist.pdf](http://www.gfoa.org/downloads/generalpurposechecklist.pdf))



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