

Miscellaneous Reporting Issues and Best Practices

Government Finance Officers Association of South Carolina
October 14, 2014



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Agenda

- Opinions
- Reporting Entity
- Management's Discussion and Analysis (MD&A)
- Internal Integrity
- Financial Statements
- Footnote Disclosure



Opinions

Opinions

We have audited the accompanying financial statements of the **governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information** of the City of Example, Any State, as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

- Identification of entity
 - Consolidated or combined
 - Opinion units
 - Budget comparison
 - ◇ Location effects the opinion

Opinion on Budgetary Comparison

- “In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position and, where applicable, cash flows thereof and the **respective budgetary comparison for the General Fund** for the year then ended in accordance with accounting principles generally accepted in the United States of America.”

Opinions *(continued)*

- Reference to Other Auditors
 - Audit Opinion
 - ◇ Identification in scope paragraph
 - ◇ Identification in opinion paragraph
 - Report on Internal Control and Compliance, Government Auditing Standards
 - ◇ “The financial statements of [*name of the portion of the entity, such as the name of the component unit or fund*] were not audited in accordance with *Government Auditing Standards.*”

Reference to Other Auditors

- Our responsibility is to express opinions on these financial statements based on our audit. **We did not audit the financial statements of [identify organization, function, or activity], which represent XX percent, XX percent, and XX percent, respectively, of the assets, [net position, or fund balances], and revenues of the [identify opinion unit(s)]. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for [identify organization, function, or activity], is based solely on the report of the other auditors.** We conducted our audit in accordance with auditing standards generally accepted in the United States of America.⁴³ Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- In our opinion, **based on our audit and the report of other auditors**, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

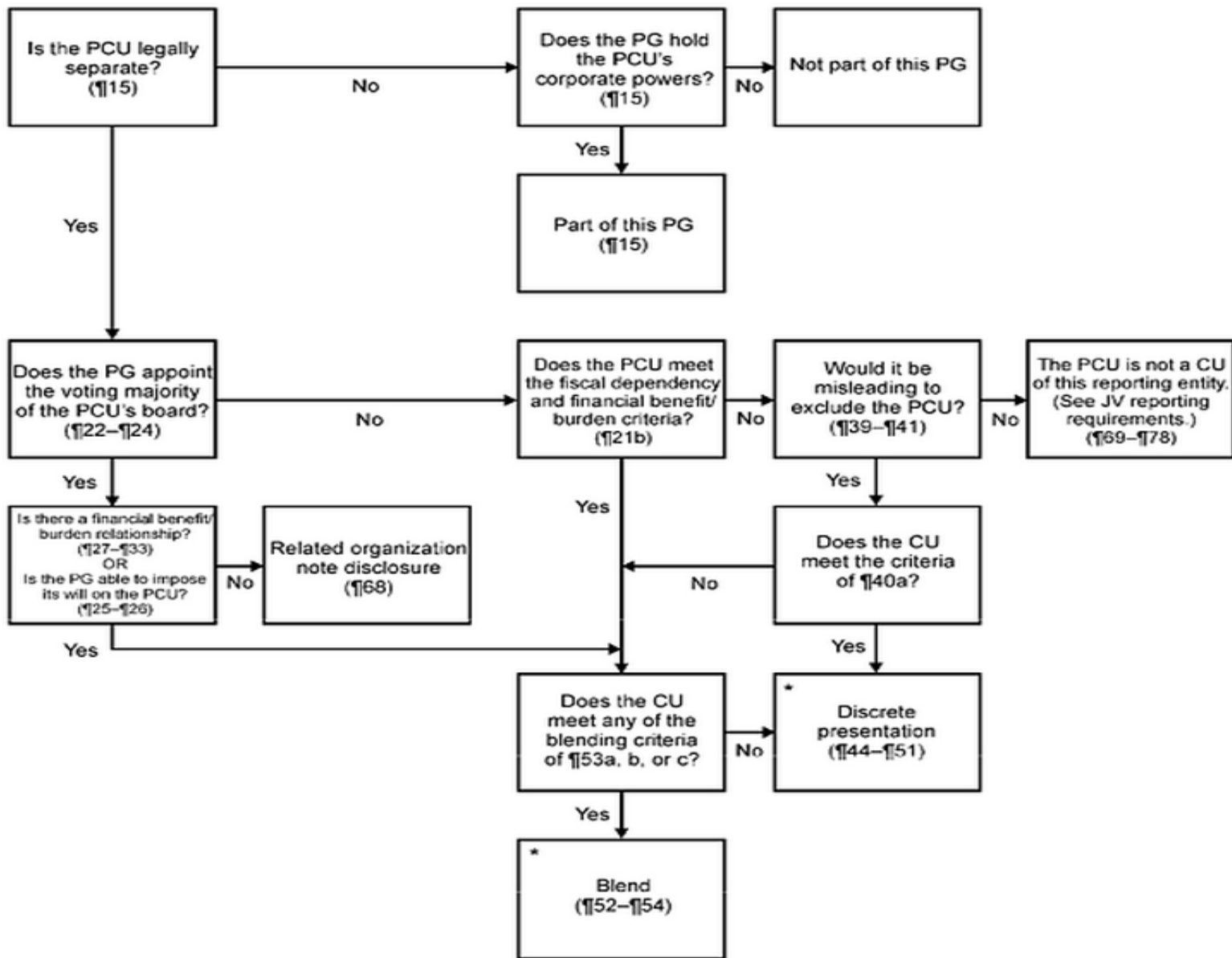


Reporting Entity

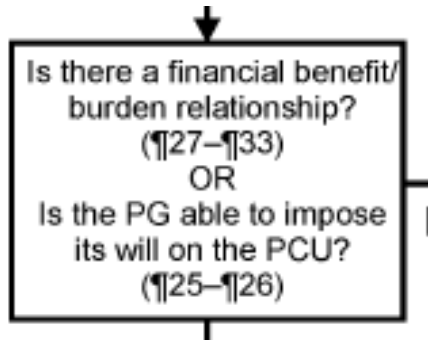
Reporting Entity

- Major Funds
 - Major funds are missed due to consolidation of funds or new activity
 - Revisit once draft statements are complete
- Component Units
 - Discretely vs. blended

Component Unit Flowchart



Financial Benefit/Burden OR Impose Will

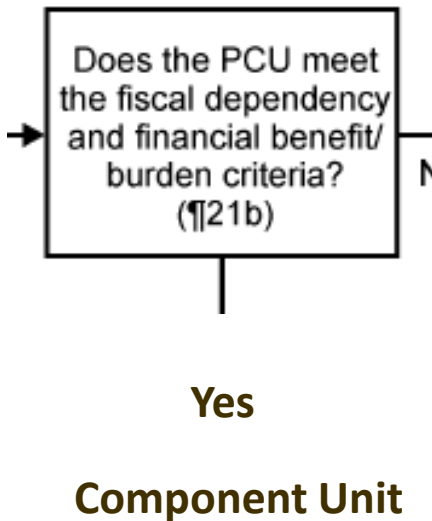


Yes

Component Unit

- PG is directly or indirectly legally entitled to the resources of the PCU or legally obligated for the debts and deficits of the organization.
- Influence the programs, projects, activities, level of services
 - Budgets
 - Fees
 - Control of management

Fiscal Dependency AND Financial/Burden Criteria



- PG substantively approves PCU's budget or levy's taxes or sets rates, or issues debt
- PG is directly or indirectly legally entitled to the resources of the PCU or legally obligated for the debts and deficits of the organization.

Blending – Need Just One

- A) Board the same (pretty close) AND
 - Financial benefit or burden OR
 - Management of the primary government is responsible for the operations of the CU
- B) Provides service primarily to the primary government – similar in concept to internal service funds
- C) The CU's debt is expected to be paid by the primary government or their resources



Management's Discussion and Analysis (MD&A)

MD&A

- Does not include comparison of one year beyond time period covered
 - Single year report - 2 years compared
 - Comparative report - 3 years compared
- Length
 - Should be high level overview/recap, not a novel
 - Missing elements (e.g. description of currently known facts, decisions or conditions affecting the future)

MD&A *(continued)*

- Editorial comments – keep to a minimum, this is not a political document
- Use of acronyms which are not defined
- Use of charts
 - Percents don't add up to 100%
 - Graphics don't agree with numbers
- Explanations don't make sense or are just an explanation of the math
 - Interest as a percent of revenues increased because there was more interest income

MD&A (continued)

- Quantify changes but do not forget to tell the reader why?
 - Use an analytical rule and tool

CHANGES IN NET POSITION		Governmental Activities		Amt Change over PY	% Change over PY	Business-Type Activities		Amt Change over PY	%
SCOPE = +/-\$5M + 10%		2013	2012 Restated			2013	2012		
Revenues:									
Program revenues:									
Charges for services		131,646	135,053	(3,407)	-2.52%	44,086	45,929	(1,843)	
Operating grants and contributions		318,956	308,392	10,564	3.43%	-	-	-	
Capital grants and contributions		68	839	(771)	-91.90%				
		450,670	444,284	6,386	1.44%				
Charges for Services									
General government		26,466	27,239	(773)	-2.84%				
Health services		68,943	72,910	(3,967)	-5.74%				
Social services		1,064	1,568	(504)	-32.14%				
Public safety and justice		17,167	16,809	358	2.13%				
Community services		3,514	2,914	600	20.59%				
Library services		1,639	1,747	(108)	-6.18%				
Roads and bridges		12,853	11,866	987	8.32%				
Interest on long-term debt		-	-						
Total		131,646	135,053	(3,407)	-2.52%				
Operating Grants & Contributions									
General government		1,720	1,610	110	6.11%				

fitzpac:
 Increase in DCHS account 1505-50190 by \$11.9M over FY12 - due to various SMHG programs... State funded new programs including AMHI - adult mental health initiative - the AMHI program has moved mental health patients out of State hospitals into the community. This has contributed to an increase in the use of community psychiatric beds.

Per DCHS DDS Budget Liaison:
 Ed, you are correct. The State approves the plans and is responsible to us, the client and Medicaid to fully fund them. That said, we frequently monitor the eXPRS SEPAs and Remittances to ensure they are keeping that commitment. I look at SEPAs several times per week.

We do see frequent changes due to new plans, terminations and plan modifications. Each SEPA provides separate detail per client and we do monitor at that level as well as looking at



Internal Integrity

Internal Integrity

- Statements don't agree among themselves
 - Interfund balances don't agree
 - ◇ Due to does not equal due from
 - ◇ Transfer in does not equal transfer out
 - Net position does not agree between balance sheet and operating statements
- Footnotes don't agree with statements

Internal Integrity *(continued)*

- Relationships are not maintained throughout the statements and notes
 - Debt activity in the governmental funds operating statement and the proprietary funds cash flows does not agree with the footnotes
- Footnote totals have no relationship to financial statements
 - Due from/due to

Missing Footnotes

- Good checks
 - GFOA Report Checklists
 - Review financial statement line items and ask –
 - ◇ If significant or unusual accounts or class of transactions, do you have a footnote with further explanation?
 - ◇ Are we doing anything that interesting and worthy of disclosure?



Financial Statements

Financial Statements

- Incorrect titling / terminology
 - Statement of Net Position vs. Balance Sheet
 - Transmittal, MD&A, footnotes, reconciliations
 - Deferred vs. unearned
- Net investment in capital assets
 - Use of old terminology - investment in capital assets, net of related debt
 - Incorrect calculation
 - ◇ Omits unspent bond proceeds

Financial Statements *(continued)*

- Cash Flows
 - Incorrect method used
 - ◇ Direct method
 - ◇ Reconcile to operating income
 - ◇ 4 categories and not 3
 - ◇ Different classifications for certain items (e.g. interest income)
- Misclassification of cash flows
- End of year cash does not agree with the Statement of Net Position
- Missing noncash disclosures
 - Seller financed purchases

Financial Statements *(continued)*

- Nonmajor funds
 - Use of more than one column
 - Failure to label on the face of the statements

Financial Statement *(continued)*

- Budget to actual comparison
 - Include for all major governmental funds with a legally adopted budget
 - Not shown at the legal level of budgetary control
 - Include both original and final budgets
 - Titling - GAAP vs. Non-GAAP
- Deferred inflows and outflows
 - No description in the footnotes
 - Incorrect placement in statements
 - ◇ Deferred inflows after liabilities
 - ◇ Deferred outflows after assets



Footnote Disclosure

Footnote Disclosure

- Debt defeasance
 - There are two different footnotes
 - Year of defeasance
 - Subsequent years until debt finally retired
- Conduit Debt
 - Disclosure missing
 - Outstanding balances are not up to date

Footnote Disclosure, *(continued)*

Defeasance Disclosures

- **Year of Defeasance**

Note X: General Long-term Debt

On March 31, 1986, the City issued \$42.9 million in General Obligation Bonds with an average interest rate of 7.3 percent to advance refund \$35 million of outstanding 1984 Series bonds with an average interest rate of 10.1 percent. The net proceeds of \$41.3 million (after payment of \$1.6 million in underwriting fees, insurance, and other issuance costs) plus an additional \$1.8 million of 1984 Series sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1984 Series bonds. As a result, the 1984 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$8.1 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2011 using the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next 25 years by \$6.4 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2.9 million. [GASBS 7, ¶143; GASBS 23, ¶14, as amended by GASBS 34, ¶12 and ¶82]

- **Subsequent Years**

Note Y: Prior-year Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 1987, \$34.98 million of bonds outstanding are considered defeased.

Footnote Disclosure *(continued)*

- Debt footnote
 - Missing maturity dates and/or interest rates for individual debt issues
 - Debt service table
 - ◇ Separate principal and interest columns
 - ◇ 5 individual years of debt service
 - ◇ Complete debt service through maturity
- Budget disclosures
 - Funds with legally adopted budgets
 - Legal level of control
 - Budget violations

Footnote Disclosure *(continued)*

- Negative Fund balances
 - Identification and method for resolving

Required Supplemental Information

- Missing or incomplete information
 - Pension and OPEB – Separately issued statements or not
 - Notes to Budgetary Comparisons



Evolving Role of Your Financial Statements

Overall Disclosure Practices

- What is the primary users of your financial statements?
- What user group do you believe is the driving force behind the new standards?

Market Participants and Investors

- Interested in greater and timelier disclosures in
 - Primary offerings
 - ◇ Particular with respect to smaller less sophisticated issues and conduit borrowers.
 - Continuing disclosure
 - ◇ Missing
 - ◇ Inconsistent and incomplete
 - ◇ Not understandable

SEC Rule 15c2-12: Continuing Disclosure

- Annual Financial Information
- Event Notices
 - 10 days after the occurrence of the event*
 - ◇ Late principal and interest payments
 - ◇ Non-payment related defaults
 - ◇ Unscheduled draws on debt service reserves
 - ◇ Unscheduled draws on credit enhancements
 - ◇ Substitution of credit or liquidity providers or their failure to perform
 - ◇ Adverse tax opinions or events affecting tax-exempt status
 - ◇ Modification to rights of the security holders
 - ◇ Bond calls and tenders offers
 - ◇ Defeasances
 - ◇ Release, substitution or sale of property securing security
 - ◇ Bankruptcy, insolvency or receivership
 - ◇ Merger, acquisition or sale of all issuer assets
 - ◇ Appointment of successor trustee

* = 10 days for issues after December 1, 2010

Financial Statement and Financial Information

- Timeliness of Primary Offerings
 - Too slow
 - Diminished usefulness or lost relevance
- Comparability of Financial Information
 - No established standard for financial information
 - GAAP vs. non-GAAP
 - Standardization of disclosure



Understanding Your Continuing Disclosure Responsibilities

GFOA Best Practice

Summarized Elements

- Read and understand your continuing disclosure agreement (CDA)
- Develop and document your procedures for disclosure –
 - Who is responsible to file?
 - Disclosure dates (actual goal and agreed to dates)
 - What is the annual filing?
 - What are the material events (SEC and CDA)?
- Timeliness, immediately after release (180 days, if CAFR)
- What are we going to voluntarily disclose?



Maintaining Investor Relations Program

Summarized Elements

- Develop an investor strategy
- Identify the people to carryout the strategy
- What information –
 - Required (financial info and events)
 - Budgets
 - Interim financial data
 - Fiscal policies
 - Questions and answer protocols
 - Preliminary official statements
 - Relationships with rating agencies
 - Marketing activities

Quote from Best Practice

“The municipal marketplace is changing, the need to provide additional information with greater frequency is significant. Issuers should maintain an awareness of changes in current practice in the area of investor relations. Investor Relations Programs that go beyond the legally mandated requirements of SEC Rule 15c2-12 promote the efficient sale of debt instruments in both the primary and secondary markets and improve the reception of debt offerings. Expansive disclosure practices are encouraged, especially the availability of interim financial information between your annual filings.”



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