



# The Non-Governmental CPA's Guide to Governmental Financial Statements

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# Learning Objectives

- Brief overview of governmental financial statements
- Discuss basic analysis of governmental financial statements



# Core Differences between FASB & GASB

## FASB

- Focus on Economic Events
- Long-term and short-term reporting the same

## GASB

- Budget-Focused (Accountability)
- Current Resources (cash or near cash)



# Do we know the Accounting Equation?



# Accrual vs. Modified Accrual

Full Accrual (FASB and GASB)	Modified Accrual (GASB only)
Recognize economic events regardless of when cash is received or paid	Focus on cash or near cash transactions
Capital Assets / PP&E / Fixed Assets are recognized	Purchase of capital assets are expensed
Long-term liabilities are recorded	Principal and interest payments are expensed, debt proceeds are other sources (i.e. revenue)
Revenue is recognized when economic event occurs	Revenue is recognized when measurable and expected to be collected near term
Expense is recognized when economic event occurs	Expenditures are recognized when incurred with some exceptions



# Brief Overview of Fund Types

- **Governmental fund category**
  - General fund
  - Special revenue funds
  - Capital projects funds
  - Debt service funds
  - Permanent funds
- **Fiduciary fund category**
  - Pension (and other employee benefits) trust funds
  - Investment trust funds
  - Private-purpose trust funds
  - Agency funds
- **Proprietary fund category**
  - Enterprise funds
  - Internal service funds



# Major Funds vs. Non-Major Funds

## Major Funds

- Significant 5%/10% require separate column
- General Fund always major

## Non-Major Funds

- Reported in aggregate
- Detail of these funds can be found in the combining statements

Audit Note: Opinion and materiality coincide with major and non-major funds





# Component Units (conceptually similar to VIE)

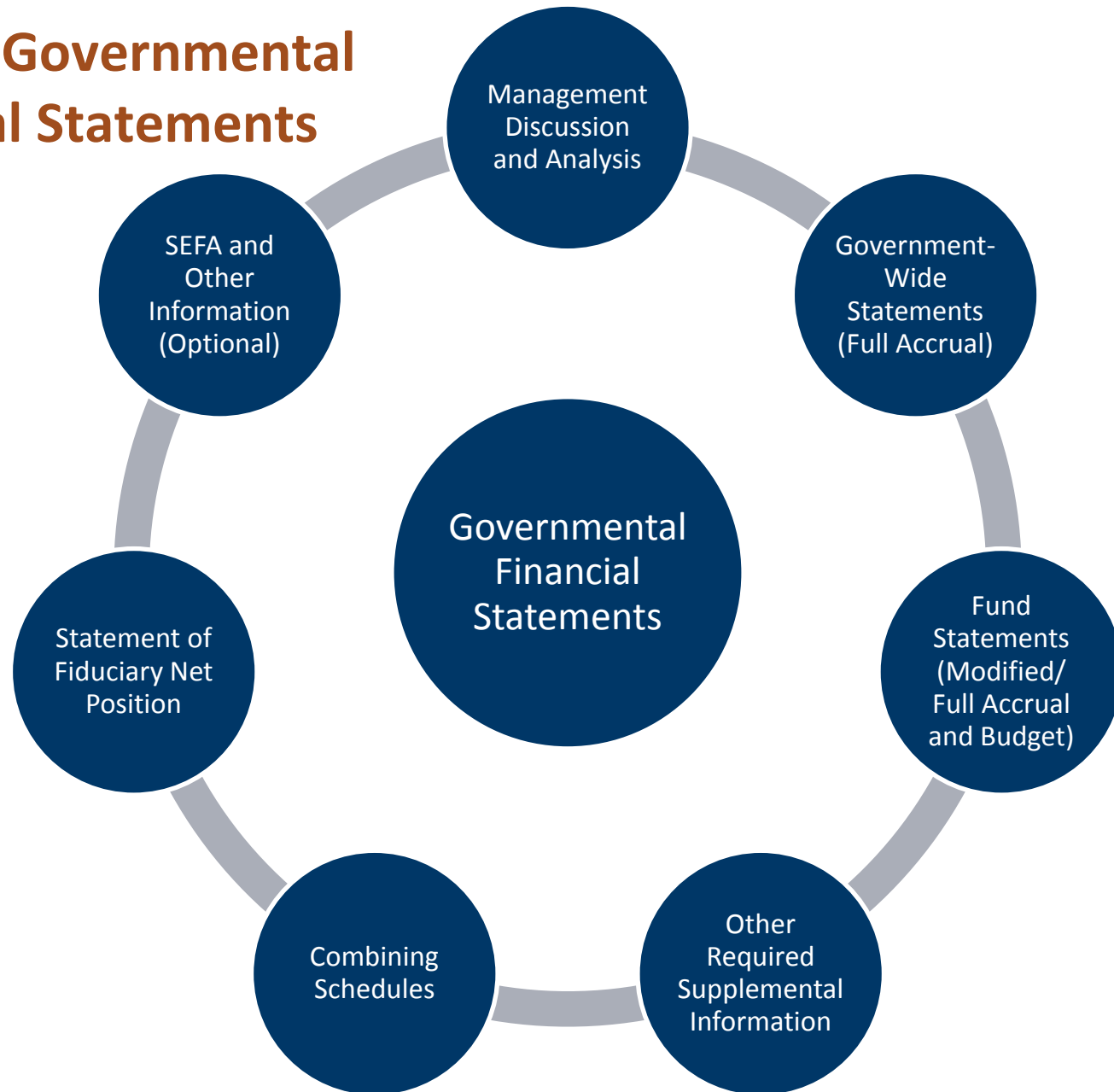
## Blended Component Unit

- Included in the financial statements of the primary government as if it is part of the reporting entity

## Discretely Presented Component Unit

- Separately reported on the government-wide financial statements and separate footnotes

# Example Governmental Financial Statements



# What is a CAFR?

- Comprehensive Annual Financial Report (CAFR)
- All the requirements of GAAP and more
- CAFRs are optional. They are reviewed by a GFOA reviewer and receive a *Certificate of Achievement for Excellence in Financial Reporting*
- 109 page checklist of requirements
- Adds the following elements:
  - Transmittal letter
  - Statistical section
  - More clarity in reporting and disclosures





# Analyzing Governmental Financial Statements

Where do you start?

# General Understanding of the Government

- Management Discussion and Analysis
  - 2 Year comparison, with an emphasis on the current year
  - Separate section for capital assets and debt
  - Economic conditions and current known facts, conditions, or decisions (includes subsequent events)





## Excerpt From FY2013 MD&A

Faced with an initial projected gap of more than \$25 million, the fiscal year 2013 budget was balanced through a mixture of significant revenue increases, significant expenditure decreases, and steps taken to reduce legacy costs. Reports submitted to the state treasurer detailed the 25 percent increase in water and sewer rates, passage of a 6 mill property tax increase for police and fire, which is recorded in a separate public safety special revenue fund and the monies are restricted as such on the government-wide statement of net position, establishment of a special assessment district for street lighting, elimination of 20 percent of the City's workforce, compensation decreases equivalent to a 20 percent wage reduction for remaining employees, and the restructuring of health and retirement benefits for current employees and retirees necessary to develop a credibly balanced spending plan.

The challenges are many, including:

- Continuing decline in property values, made more dire by the phase-out of personal property tax
- Minimal increases in income tax revenues as unemployment and poverty remain high
- An aging and reduced workforce, resulting in an increase in the ratio of retirees to active employees, affecting pension and health care costs
- Aging sewer, water, street, and sidewalk infrastructure



## NYC Subway Example

Does my \$31 NYC  
Subway ticket cover  
the cost of my ride?



# Statement of Activities for NYC 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
					Governmental Activities	
Primary government:						
General government . . . . .	\$ 5,479,762	\$ 2,139,192	\$ 1,529,203	\$ 49,220	\$ (1,762,147)	\$ —
Public safety and judicial . . . . .	13,651,658	318,318	649,500	18,158	(12,665,682)	—
Education . . . . .	22,843,399	77,577	10,959,817	83,015	(11,722,990)	—
City University . . . . .	1,094,172	383,012	237,559	592	(473,009)	—
Social services . . . . .	14,514,037	55,827	4,593,584	67,848	(9,796,778)	—
Environmental protection . . . . .	3,188,665	1,483,453	25,093	65,911	(1,614,208)	—
Transportation services . . . . .	2,460,777	1,046,642	253,446	354,962	(805,727)	—
Parks, recreation and cultural activities . . . . .	1,249,560	93,490	18,431	232,533	(905,106)	—
Housing . . . . .	1,574,233	416,119	485,768	27,019	(645,327)	—
Health (including payments to HHC)	2,186,493	64,634	685,342	74,016	(1,362,501)	—
Libraries . . . . .	350,475	—	—	156	(350,319)	—
Debt service interest . . . . .	2,929,046	—	—	—	(2,929,046)	—
Total primary government . . . . .	\$71,522,277	\$ 6,078,264	\$19,437,743	\$ 973,430	(45,032,840)	—
Component Units . . . . .	\$16,929,460	\$12,941,245	\$ 2,738,923	\$1,148,696	—	\$ (100,596)



# Statement of Activities for NYC 2015

## General revenues:

### Taxes (net of refunds):

Real estate taxes . . . . .	21,447,965	—
Sales and use taxes . . . . .	8,071,466	—
Personal income tax . . . . .	11,559,669	—
Income taxes, other . . . . .	7,965,041	—
Other taxes:		
Commercial rent. . . . .	787,035	—
Conveyance of real property . . . . .	1,772,193	—
Hotel room occupancy . . . . .	559,846	—
Payment in lieu of taxes . . . . .	304,585	—
Other . . . . .	55,382	—
Investment income . . . . .	161,351	235,010
Unrestricted federal and state aid . . . . .	252,194	4,744
Other . . . . .	1,403,787	634,910
Total general revenues . . . . .	<u>54,340,514</u>	<u>874,664</u>
Change in net position . . . . .	9,307,674	774,068
Net position (deficit)—beginning . . . . .	<u>(191,103,187)</u>	<u>(286,481)</u>
Net position (deficit)—ending . . . . .	<u><u>\$(181,795,513)</u></u>	<u><u>\$ 487,587</u></u>



# NYC Subway Analysis

- Fees for service (includes my \$31 ticket) covers approximately 43% of my ride
- Grants cover approximately 25% of transportation services
- \$805 million or 32% of transportation costs are paid for by general revenues (taxes)
  - Thank you taxpayers of NYC!
- My ticket should cost \$72 for a 7-day pass



# City of Flint, Michigan Example

## Water Supply Division Financial Statements



# A look at the Flint, Michigan Water Fund

- \$26.4 million in total net position
  - \$21.2 million is invested in capital assets
  - \$2.4 million is restricted for debt service
  - \$2.0 million was restricted for capital improvements
  - \$0.8 million is unrestricted net position
- \$41.3 million in operating expenses
- \$1.1 million transfer to general fund to cover general governmental services



# A look at the Flint, Michigan Water Fund

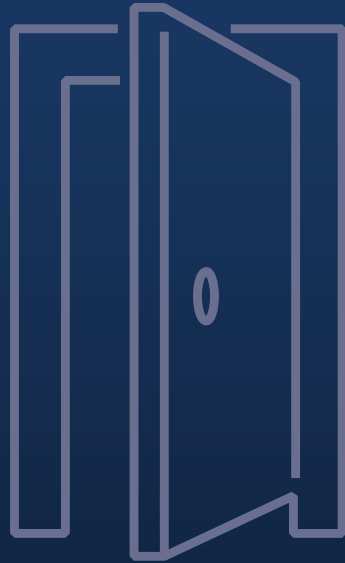
- Is the Water Supply Division financially healthy?
- If you were advising a client with operations in a city similar to Flint, what types of discussions should you be having?
- Should the city be transferring funds from the Water Supply Division to the General Fund?
- How else can the City balance the budget – increased taxes, increased user fees, decrease in services?



# Statistical Section

- 10-year Analysis of Net Position, Revenues, and Expenses
- Value of taxable property
- Tax rates
- Top 10 property owners determined by value
- Collection rate of taxes
- 10-year analysis of debt and debt per capita
- Other debt ratios and pledged revenues for debt
- Other demographic information for the government (top employer, number of employees, etc.)





# Questions?

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