

# Financial Reporting Challenges

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Presented by  
Zach Chalifour, CPA  
Brendan McKittrick, CPA, CISA



888-387-6851

[www.jmco.com](http://www.jmco.com)

# Presenters



Zach Chalifour, CPA  
Partner

Zach Chalifour is a Partner with James Moore CPA's, where he currently serves as the leader of the firm's Assurance service line and Government Services team.

Zach is an Annual Comprehensive Financial Report (ACFR) reviewer for the Government Finance Officers Association (GFOA) and works exclusively with government organizations providing services from external audits to internal audit and grant consulting.

Having served as the contract Finance Director for the City of Lake Helen since 2019, Zach has also led the development of the firm's outsourced financial solutions model and continues to shift from the external auditor role to the internal side.

Zach is a graduate of Stetson University and has served as an adjunct professor for the Governmental Accounting class in Stetson's Master of Accountancy program since 2022.



Brendan McKitrick,  
CPA, CISA  
Director

Brendan McKitrick is a Director with James Moore CPA's, where he is a member of the Government Services team. Brendan has over 15 years of experience in the accounting industry and works exclusively with government organizations providing services from external audits, including IT General Controls reviews, as well as outsourced accounting and financial management services.

Brendan received a Master of Science in Information Systems and Operations Management and a Bachelor degree in Accounting at the University of Florida.

# Overview



## Auditor View

- » Common Deficiencies
- » Reasons for Delays
- » Approaching Challenging Areas



## Our Internal Perspective

- » Templates
- » Repeatable Processes



## ACFR Deficiencies

- » Common GFOA Comments

# Start With the Basics



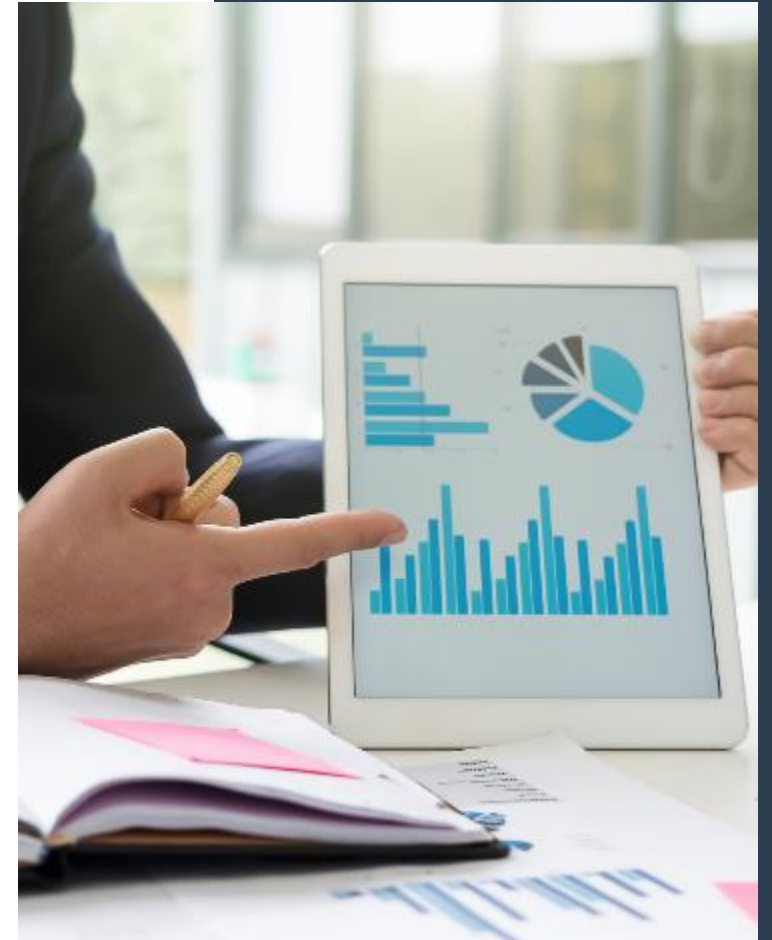
- » Ensure You Have Controlled Process in Place to Ensure the Following During and at End of Year:
  - Core TB reports in balance
  - Equity balances tie to prior year
    - o Initial roll of prior year at completion of audit
    - o Controls/education related to NOT hitting equity accounts in current year
  - Timely bank reconciliations (INCLUDING pooled cash GL recon)
  
- » All the Above = Solid Foundation for Cash -> Accrual

# Balance Sheet Challenges: Assets

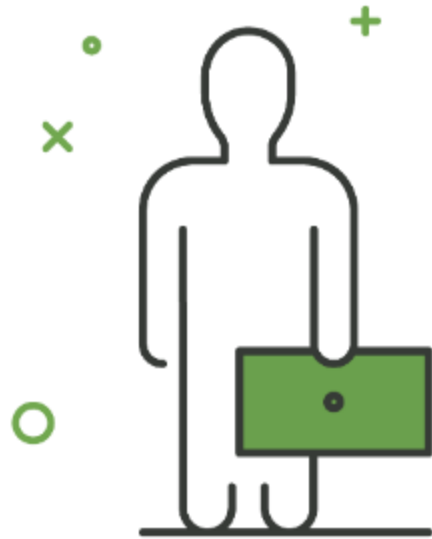
# Cash

## Issues to Monitor

- » Pooled Cash / GL Portion of Bank Recs
  - Ending balances (full accrual only)
  - Capital Outlay Expenditures
  - Depreciation Expense
- » Back-Dating of Checks (Fiscal Year-End)
  - Outstanding checks vs. accounts payable
  - Prepaids – stay tuned!

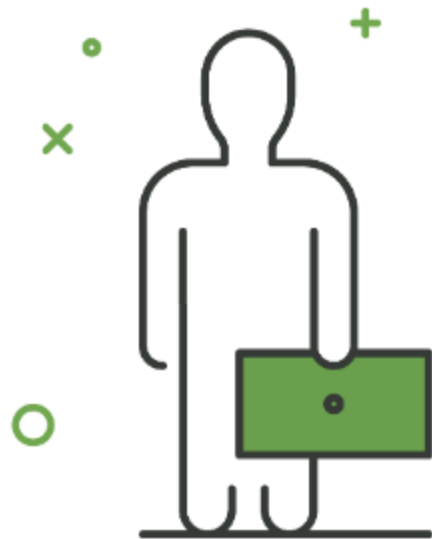


# Receivables – Estimating Bad Debt



- » Budget Approach (OK for during the year)
  - Budgeted Bad Debt
  - % of Gross Revenue
  
- » Balance Sheet Approach (necessary at year-end)
  - Historical Collections
  - Subsequent Collections
  - Other Relevant Factors

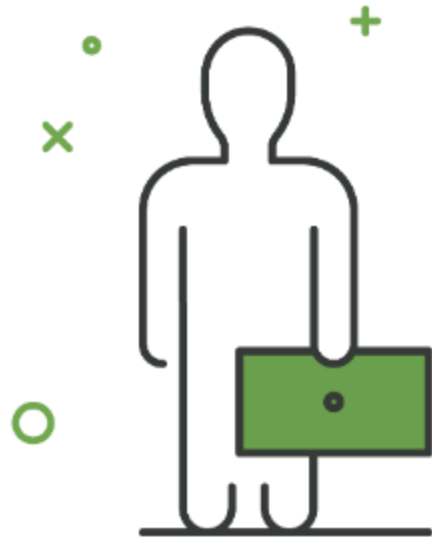
# Receivables – Unbilled



- » Considerations @ Year-End Close
  - Cash vs. Accrual
  - Accuracy of Revenue vs. Balance Sheet
- » Method of Calculation
  - Estimated (Rolling average, etc.)
  - Pro-Rated based on Cutoff Period(s)



# Receivables – Let's Take Some Polls



» State of Florida (sales tax, rev sharing, etc.)

- 2 months?
- 1 month?
- 0 month?

» FEMA

- Obligated?
- Subsequently paid?
- Expected?

» Opioid Settlement

- Fully record w/availability considerations?
- Allowance?

# Let's Take Another Poll!

» Are you ready for the dad jokes?

A. Yes, I've been waiting!

B. Please, no!

C. Dad jokes??

# Prepays and Inventory

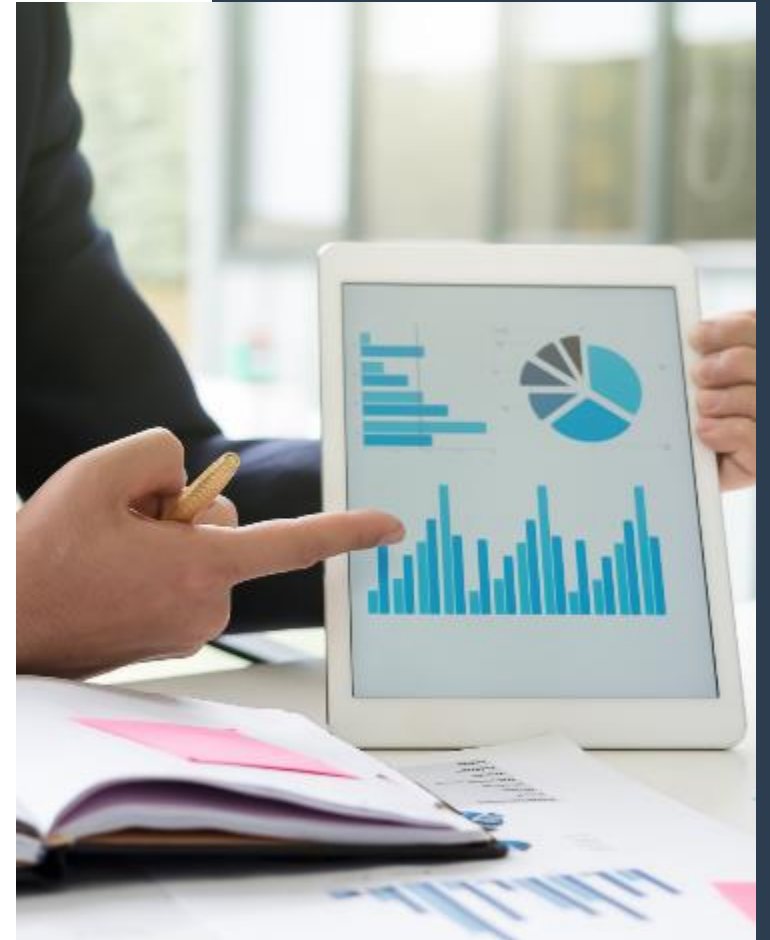


- » Same item in Prepays and Accounts Payable?
- » Purchase vs. Consumption Method

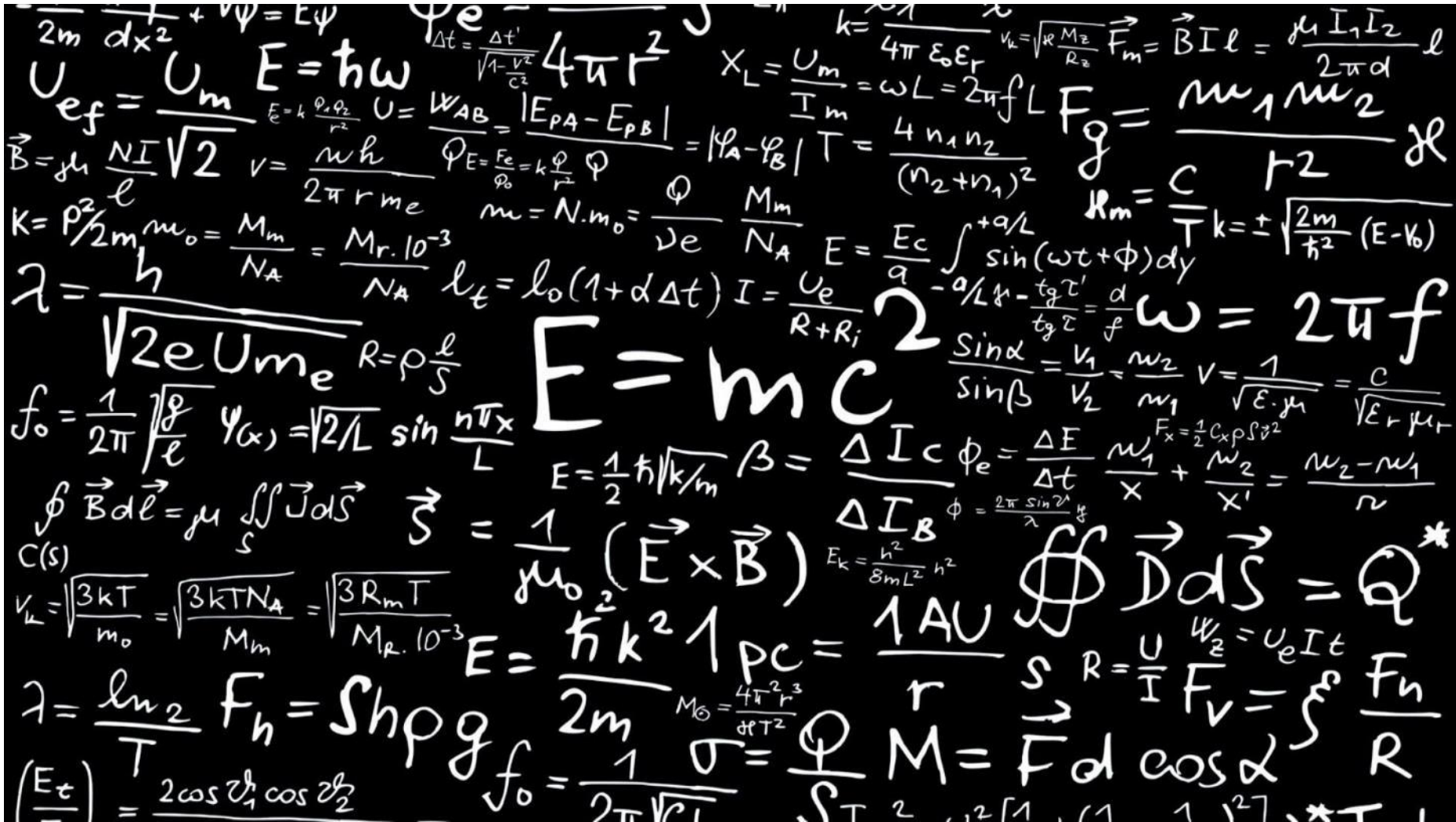
# Capital Assets

## Key Requirements

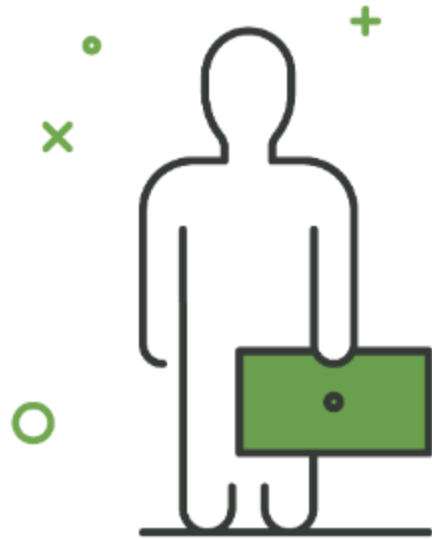
- » Financial Statements
  - Ending balances (full accrual only)
  - Capital Outlay Expenditures
  - Depreciation Expense
  
- » Note Disclosures
  - Capital asset rollforward
  - Depreciation expense by function
  
- » Simple, right?



# The Mystique of Capital Assets



# Capital Assets – Operational Considerations



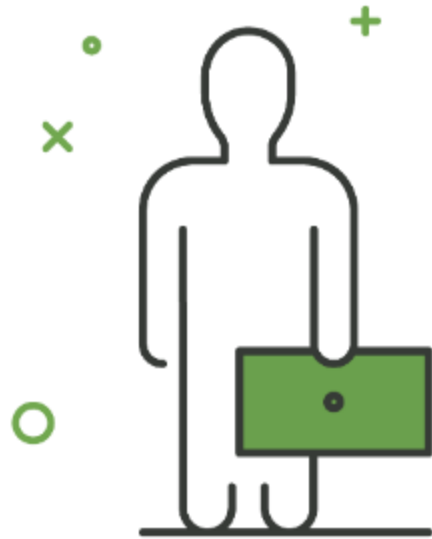
## » Identification of Capital Assets - Frequency of Attention

- Annually?
- Quarterly?
- Monthly?

## » Capitalization Threshold

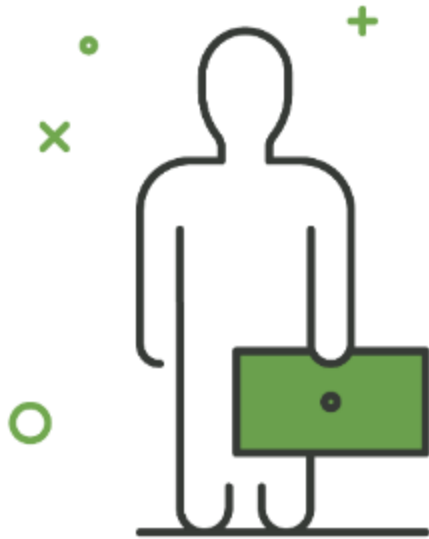
- \$5,000?
- \$1,000?
- Something else?

# Capital Assets – Operational Considerations



- » General Ledger Controls
  - Capital Outlay vs. Operating accounts
  - Capital Outlay accounts by major asset/project
  
- » Review for proper classification
  - Capital items in operating accounts
  - Non-capital items in capital outlay accounts

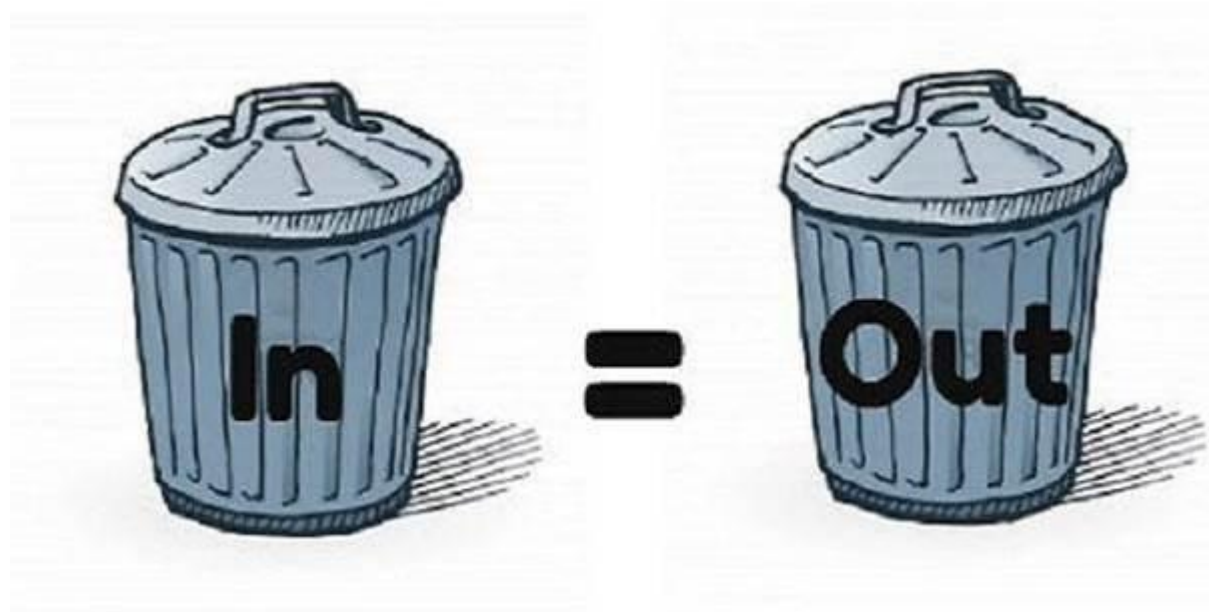
# Capital Assets – Operational Considerations



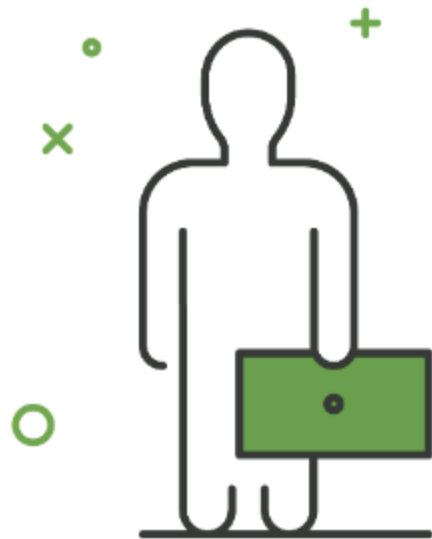
- » Depreciation Software
  - Integrated ERP solution?
  - Independent software?
  - Excel spreadsheet?
  - Auditors do it?



# Capital Assets – Operational Considerations

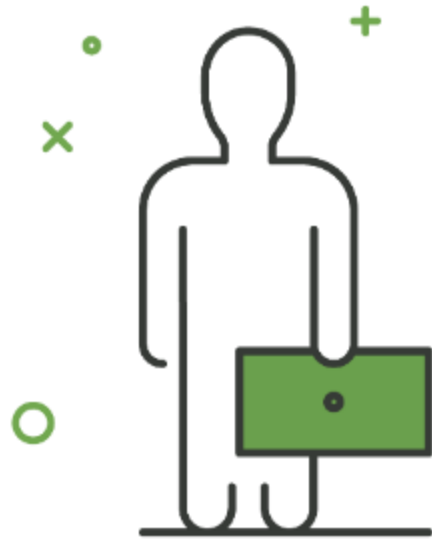


# Capital Assets – Year-End Process



- » Beginning Balances – BEFORE ANYTHING ELSE!
  - Ensure starting point in depreciation software agree to prior year balances and detail
- » Understand Depreciation Software Nuances
  - How are additions presented?
  - How are deletions handled?
- » Non-Negotiable: ensure process in place to identify and follow through current year addition/deletions activity within depreciation software

# Capital Assets – Year-End Process



## » Additions – Reconciliation (Governmental Activities)

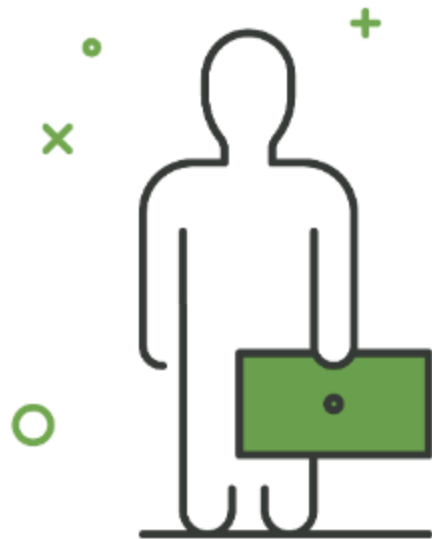
- Capital Outlay Expenditures
- + Capital Asset Additions in non-capital outlay accounts
- Non-capital expenditures in capital outlay accounts
- + Donated/contributed capital assets
- = NET ADDITIONS PER ROLLFORWARD

# Capital Assets – Year-End Process

## » Additions - Classification

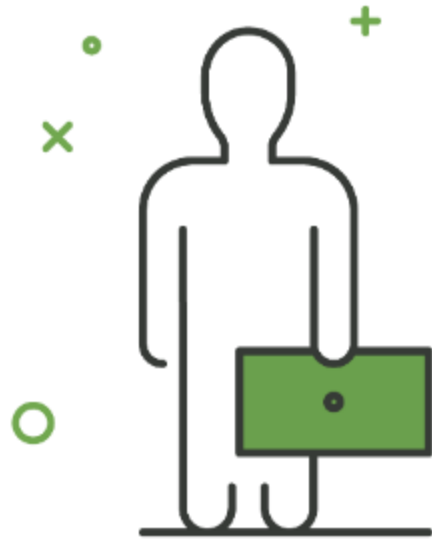
- Completed asset
- CIP
  - Detailed CIP rollforward *by project*
  - New CIP additions vs. reclassification of completed asset

## » Consideration of Project/Asset-level GL accounts



Account	Description	Amount
300-1304-664-000-PW2313	EQUIPMENT	180,000.00
300-1304-664-000-PW2314	EQUIPMENT	11,000.00
300-1306-664-000-PW2316	EQUIPMENT	5,995.00
300-1306-664-000-PW2318	EQUIPMENT	6,669.00
300-1306-664-000-PW2319	EQUIPMENT	5,300.00
300-1403-662-000-PR2304	BUILDINGS	36,940.00
300-1403-662-000-PR2305	BUILDINGS	15,858.00
300-1403-663-000-PR2106	INFRASTRUCTURE	11,286.00
300-1403-663-000-PR2220	INFRASTRUCTURE	66,354.00
300-1403-663-000-PR2309	INFRASTRUCTURE	27,932.00
300-1403-663-000-PR2318	INFRASTRUCTURE	32,000.00

# Capital Assets – Year-End Process

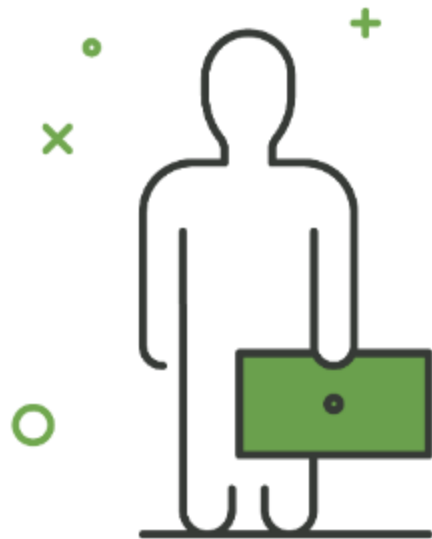


- » Additions – Business-Type Activities
  - Capitalization of assets entry considerations
    - Reclass against existing expenditure accounts
    - Offset account

# Capital Assets – Bulk Assets

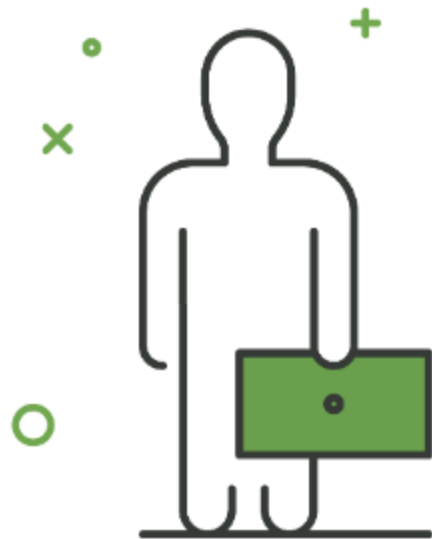


# Capital Assets – Year-End Process



- » Deletions – Identification Considerations
  - Disposed of assets
  - Fully depreciated assets (no separate consideration)
  - Old assets below capitalization threshold
- » Deletions - Reporting
  - Ensure current year activity (e.g. depreciation expense for part of year) clearly included and/or reconcilable to year-end reports
- » Deletions – Governmental Activities Impact / Check Figure
  - Net book value of disposed assets (independent of any proceeds from sale) on rollforward = reconciling item on statement of activities reconciliation

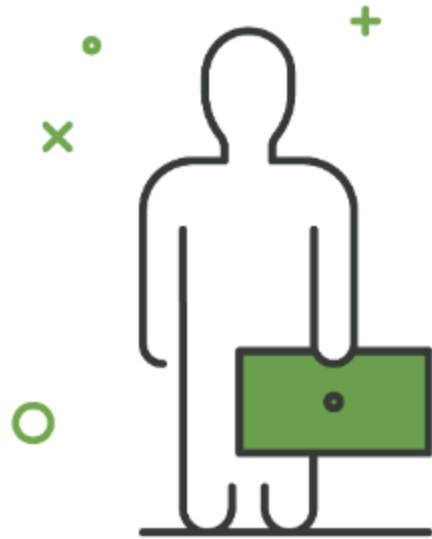
# Capital Assets – Year-End Process



- » Depreciation Expense
  - Verify useful lives
  - Depreciation expense reasonableness
- » Data Validation
  - Non-fully depreciated assets with no depreciation expense?
  - Accumulated depreciation on asset in excess of cost basis?



# Capital Assets – Year-End Process



- » Final Support Schedules
  - Ending NBV balances = GL balances (proprietary funds)
  - Additions and Deletions schedules clearly tied into ending depreciation schedule, including capital outlay reconciliation
- » Book depreciation expense entries, etc., only once everything clearly in balance and reconciled to supporting schedules

# Capital Assets – Inclusion of Leases and SBITAs on Rollforward

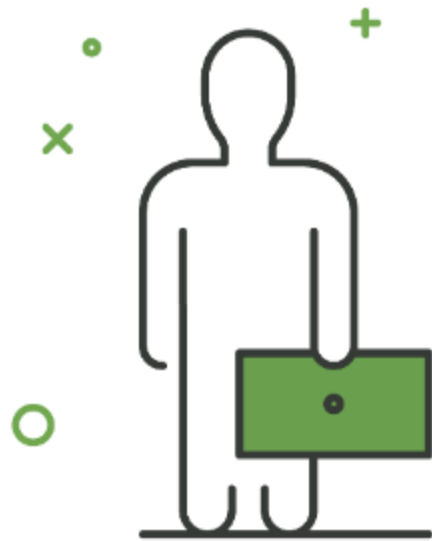
	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 50,067,172	\$ -	\$ -	\$ 50,067,172
Construction-in-progress	22,974,097	12,357,720	25,461,699	9,870,118
Total capital assets, not being depreciated	73,041,269	12,357,720	25,461,699	59,937,290
Capital assets, being depreciated				
Buildings	191,856,915	24,057,089	-	215,914,004
Machinery, equipment and vehicles	33,208,145	3,376,386	935,135	35,649,396
Right-to-use leased equipment	-	60,017	-	60,017
Infrastructure	206,411,089	1,415,056	-	207,826,145
Total capital assets, being depreciated	431,476,149	28,908,548	935,135	459,449,562
Less accumulated depreciation for:				
Buildings	(78,425,803)	(4,767,749)	-	(83,193,552)
Machinery, equipment and vehicles	(21,468,057)	(2,138,804)	(925,961)	(22,680,900)
Right-to-use leased equipment	-	(6,426)	-	(6,426)
Infrastructure	(120,858,864)	(5,353,077)	-	(126,211,941)
Total accumulated depreciation	(220,752,724)	(12,266,056)	(925,961)	(232,092,819)
Total capital assets, being depreciated, net	210,723,425	16,642,492	9,174	227,356,743
Total governmental activities capital assets	\$ 283,764,694	\$ 29,000,212	\$ 25,470,873	\$ 287,294,033

# Capital Assets – Red Flags



- » ERP Links Transactions and “Does all the work for you”
- » Capital Assets always one of the last year-end items ready for audit (outside of waiting for final AP accruals)
- » Issues for unknown software causes – “the software did it”
- » Significant manual entry into depreciation software
- » Overcomplicating the simple

# Capital Assets – How to Streamline



- » Fixed, repeatable processes
  - Review of GL activity for proper capital outlay coding, and advance correction during the year
  
- » Standardized reconciliation processes as part of year-end work
  - Beginning balance check figures and reconciliation
  - Capital outlay vs. additions reconciliation
  
- » Depreciation solution with import capability
  - Reconcile in Excel, then leverage software instead of any added complexities in software programs without reconciliation controls
  - Plenty of CHEAP standalone programs

# Balance Sheet Challenges: Liabilities & Deferred Inflows

# Debt



# Compensated Absences



» Pre- vs. Post-GASB 101

» What Gets Included?

- Salaries
- FICA
- Retirement (sometimes – see next slide!)
- Leave Payable at Termination
- Out of Scope: Additional Leave Considerations from GASB 101

# Compensated Absences



## » Retirement Contributions

- Defined Benefit Plan (No!)
- Defined Contribution Plan (Yes!)
- But Why?



# Compensated Absences



## » Current Portion

- Methodologies
  - Past Year Earnings/Usage
  - Flat Percentages
- Bottom Line: Estimate – can it be supported as reasonable?

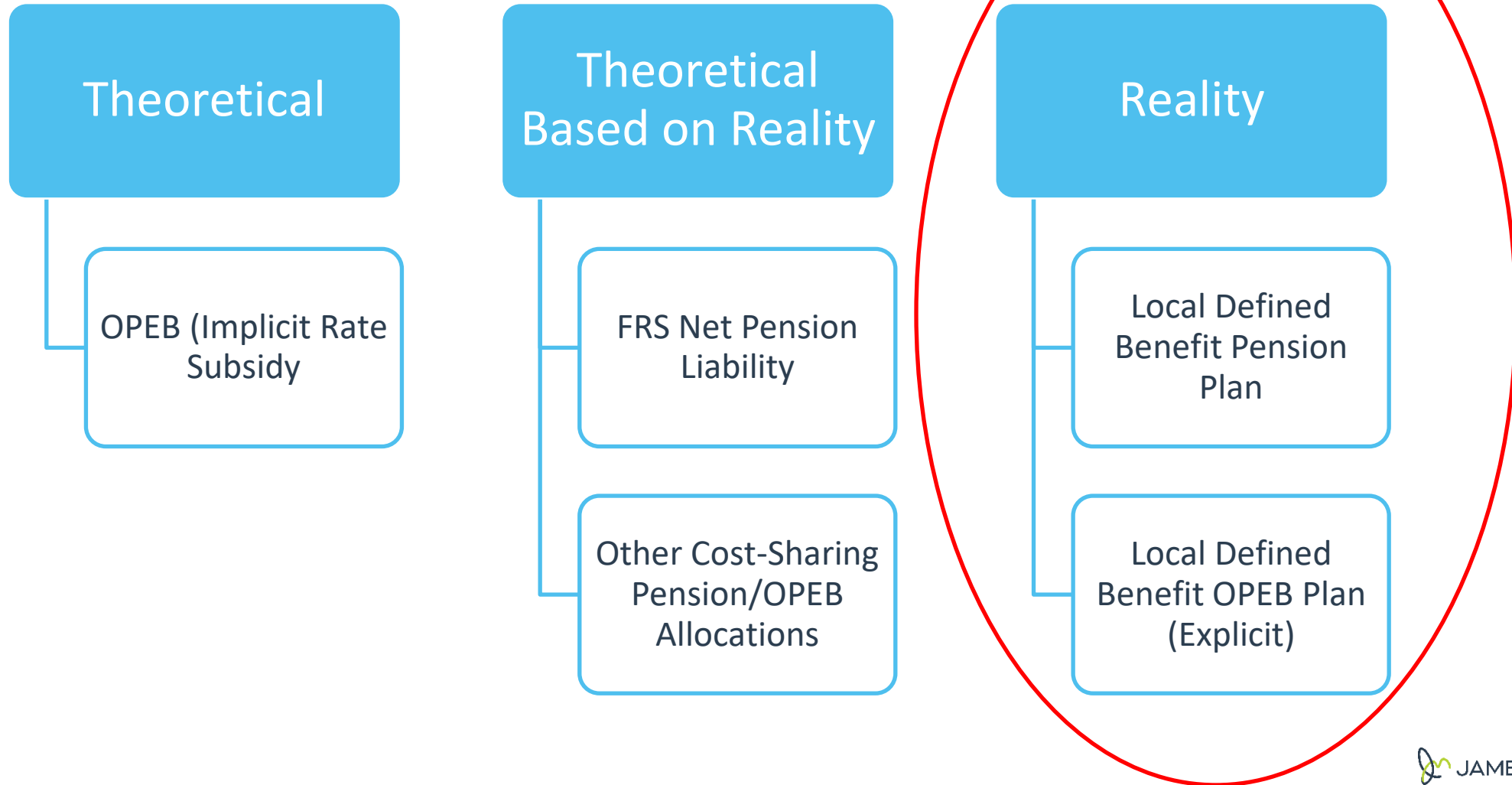
## » Full vs. Modified Accrual

- When to record liability in a governmental fund?

- » Measurement date vs. valuation date
- » Deferred outflows for subsequent contributions
- » Alternative measurement method

# Pensions and OPEB

## » Explaining Pensions and OPEB:



# Unearned vs. Deferred

	Unearned Revenue	Deferred Revenue	Unavailable Revenue
Account Type – Modified Accrual	Liability	Does Not Exist	Deferred Inflow
Account Type – Full Accrual	Liability	Does Not Exist	n/a – Revenue Recognized
Related Cash in Hand?	Yes	n/a	No. Generally related to a receivable that has not been collected within availability period.
Availability Period	n/a	n/a	60 Days for Property Taxes. Others by Policy.
Most Common Example	Subsequent FY BTRs paid by 9/30	n/a	Delinquent taxes receivable collected after 11/30

# Equity, Revenue, Expense, and Budget Challenges

# Equity Challenges



- » Net Investment in Capital Assets – More to Come!
- » Governmental Fund Balance Issues
  - Nonspendable
    - Ensure proper classification between “Advances” and “Due to/from”
  - Restricted
    - Ensure revenue and expenditure activity adequately tracked when not in standalone fund
    - Some restricted fund balances may not flow 1-to-1 to governmental activities (e.g. restricted unspent bond proceeds will effectively be offset by debt balance as part of NIICA calculation)

# Equity Challenges



## » Governmental Fund Balance Issues (Continued)

- Committed
  - Explicit rules related to classification as committed via internal resolution/ordinance
  - No “informal” commitments
- Assigned
  - Balances outside general fund at minimum assigned by virtue of fund designation
  - Cannot have positive assigned with negative unassigned
- Unassigned
  - Positive unassigned balance does not exist anywhere but in general fund
  - Other governmental funds can only have negative unassigned balance

# Equity Challenges

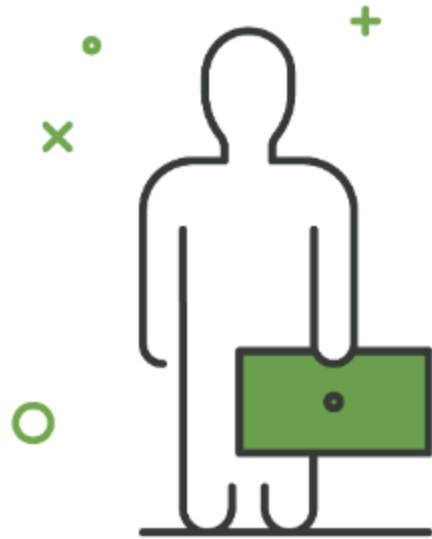


## » Reserve Policies

- Generic rainy day/baseline reserve classified as unassigned
- How to escalate/separately present?



# Revenue Recognition



- » Availability period
  - 60 days?
  - 90 days?
  - Something else?
  
- » Availability period applied to?
  - Property taxes?
  - Grants?
  - State sharing revenues?
  - Everything?
  
- » What mandates/alternatives are there as it relates to revenue recognition?

# Poll Time!

- » In your view, what is the primary role of the budget?
  - A. Legal/statutory compliance
  - B. Management tool

# Budgets



- » TRIM and Budget Adoption = Out of Scope
  
- » Let's Talk Budget Amendments and Reporting
  - Statutory Compliance
  - Legal Level of Control
  - Budget Amendments
  - Budgets as a Management Tool
  - Budgetary Comparison Schedules

# Budgets



- » Various budget statutes based on type of entity
- » F.S. 166.241 – Municipality Budgets
- » F.S. 129.01 – County Budgets
- » F.S. 189.016 - Special District Budgets

# Budgets



» Legal Level of Control

» Default: Fund Level

(2) The governing body of each municipality shall adopt a budget each fiscal year. The budget must be adopted by ordinance or resolution unless otherwise specified in the respective municipality's charter. The amount available from taxation and other sources, including balances brought forward from prior fiscal years, must equal the total appropriations for expenditures and reserves. At a minimum, the adopted budget must show for each fund, as required by law and sound financial practices, budgeted revenues and expenditures by organizational unit which are at least at the level of detail required for the annual financial report under s. 218.32(1). The adopted budget must regulate expenditures of the municipality, and an officer of a municipal government may not expend or contract for expenditures in any fiscal year except pursuant to the adopted budget.

» Charter/Code of Ordinances may be more restrictive

# Budgets



## » Budget Amendments

- » (8) The governing body of each municipality at any time within a fiscal year or within 60 days following the end of the fiscal year may amend a budget for that year as follows:
  - » (a) Appropriations for expenditures within a fund may be decreased or increased by motion recorded in the minutes if the total appropriations of the fund is not changed. *(Reclassifications - no formal action)*
  - » (b) The governing body may establish procedures by which the designated budget officer may authorize budget amendments if the total appropriations of the fund is not changed. *(Reclassifications - delegated authority)*
  - » (c) If a budget amendment is required for a purpose not specifically authorized in paragraph (a) or paragraph (b), the budget amendment must be adopted in the same manner as the original budget unless otherwise specified in the municipality's charter. *(Budget increases - resolution/ordinance)*

# Budgets



- » Budget Amendments – When to Record?
  - How to maximize use of budget as a management tool?
  
- » Always:
  - Within 60 days of year-end to ensure budgetary compliance
  
- » Sometimes:
  - Quarterly, mid-year, or other established cycles
  - Major mid-year events or changes (e.g. new grant award)
  - To account for major budget variances
  
- » Never:
  - Year-end amendments to actual
    - Financial reporting implications: late accrual or audit adjustment increasing expenditures = immediate budgetary noncompliance

# Budgets



- » Budget Reporting – Comparison Schedules
  - Major Funds
    - Basic financial statements vs. RSI
  - Accrual basis vs. Budget basis
  
- » Primary Objective
  - Demonstrate budgetary compliance
  - Reclassifications may be necessary from function to department if more granular legal level of control
  
- » Budget Variance Language
  - Removal of “Positive/Negative” or “Favorable/Unfavorable” language



# Single Audit



## » Financial Reporting Challenges of Single Audit

- Federal vs. State vs. Non-Single Audit Grants
  - o ALN (CFDA)
    - Cluster Identification
  - o CSFA
- Revenues vs. Expenditure Reconciliations
  - o GAAP vs. SEFA Recognition
- SEFA Issues
  - o Potential Audit Delays
  - o Audit Comments related to Preparation of SEFA

# SEFA Reconciliation

	“Traditional” Matching Grants	FEMA	Revolving Fund Loans
SEFA Expenditures	Accrual-basis expenditures	Obligated expenditures (may include prior year expenditures)	Accrual-basis expenditures
GAAP Revenues	Same as SEFA Expenditures	Accrual-basis revenues in accordance with revenue recognition policy	Same as SEFA Expenditures (Modified Accrual)
GAAP Expenditures	Same as SEFA Expenditures	Accrual-basis expenditures. General equals GAAP revenue.	Same as SEFA Expenditures
GAAP Additions to Debt Balance (Full Accrual)	n/a	n/a	Equal to GAAP expenditures and SEFA expenditures

# Single Audit



## » How to streamline revenue vs. expense reconciliation

- Consider removal of availability period for grants
  - o Revenue = Expenditures for most grants with no need to incorporate deferred inflows into reconciliation
- Revenue vs. Expenditure variances
  - o Likely due to Receivable cutoff issues
  - o Add Cash component (cash received, prior year AR, current year AR, etc.) to revenue reconciliation

# Finding Nemo?



# Methods to Reduce and Combat Reporting Challenges

# Biggest Challenge in “Train”ing and Supervision



# Build Internal Reconciliation & Other Templates



## » Benefits

- Build in your expertise into process
- Easier to onboard and train
- More transferrable and cross-trained

## » When Most Relevant

- Large entity with multiple individuals performing same function

# Financial Reporting and GFOA ACFR Deficiencies



# Poll Time!

» Who's Excited??



# GFOA ACFR Comments



## » Net Investment in Capital Assets

- » Often not identifiable from face of financial statements
- » New requirement in FY22 to disclose calculation detail

## » Calculation Methodology

- + Capital Assets (*including leases and SBITAs*)
- + Deferred Outflows for Loss on Debt Refunding (assuming capital-related)
- Capital-related accounts, retainage, contracts payable
- Capital-related debt
- Lease and SBITA Liabilities
- = Net Investment in Capital Assets

## » Unspent Debt Proceeds

- » Net against debt to arrive at net capital debt (based on expenditures incurred)

# GFOA ACFR Comments



- » “Fair value” vs. “Acquisition value”
- » Net assets vs. net position when discussing deferred inflows and deferred outflows
  - » *In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of **net assets** that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.*

# GFOA ACFR Comments



- » Management's Discussion and Analysis
  - » Ensure appropriate discussion of changes in major funds addressed individually
  - » Can't always just roll forward prior year numbers
  
- » OPEB Notes and RSI Schedule
  - » For a defined benefit pension/OPEB plan that is NOT administered through a trust or equivalent arrangement, the notes should clearly indicate the fact that there are no assets accumulated in a GASB-compliant trust.
  
- » Presentation of Deferred Outflows and Inflows
  - » Should NOT be aggregated on the statement of net position / balance sheet

# The Grand Finale



QUESTIONS



# Contact



Zach Chalifour, CPA  
Partner

[Zach.Chalifour@jmco.com](mailto:Zach.Chalifour@jmco.com)



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Director

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