Financial Reporting Concepts – From the ACFR to the PAFR

#SOGF2025

Speaker Introductions

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The Annual Comprehensive Financial Report – The Basics

Definition of an ACFR

- Government financial statements that complies with the accounting requirements prescribed by the Governmental Accounting Standards Board (GASB) and provides information about the financial condition of the government

Structure of an ACFR

- Introductory Section
  - Includes the transmittal letter, organizational charts, and contextual information to orient readers
  - General information, organization structure and economic condition
- Financial Section
  - Contains auditor’s report, MD&A, and financial statements detailing government-wide and fund-level data
- Statistical Section
  - Provides tables and charts showing long-term financial trends and demographic data for analysis

Purpose of an ACFR

- Transparency and Accountability
  - ACFR ensures transparency and accountability in managing public funds for stakeholders including taxpayers and policymakers
- Comprehensive Financial Communication
  - The ACFR communicates detailed financial positions and performance using audited statements and analysis to aid decision-making
- Legal Compliance and High Standards
  - The ACFR meets legal and regulatory requirements, often surpassing standard reports to demonstrate public accountability commitment

Stakeholders Who Use the ACFR

Government Officials & Policymakers

Taxpayers and Public Accountability

Investors and Financial Analysts

Auditors and Regulatory Bodies

Common Financial Reporting Mistakes and Other Best Practices

Commonly Missed Adjustments (Miscellaneous)

- Ensure that retainage payable is booked along with contracts payable, however, ensure it is not double booked as part of contracts or accounts payable as well.
- Book interest receivable from year end bank statements.
- Period of availability adjustments for deferred inflows of resources for receivables received within or after the period of availability.
- OPEB allocation on roll forward years should be based on current year census.
- Debt entries underwriters’ cost is expensed as part of issuance cost, principal payments and interest are tied to debt roll forward, and enterprise funds principal payments reduce debt versus payment being expensed

Commonly Missed Financial Statement Items

- Amounts included in the reconciliations do not correspond with the amounts in the footnotes
  - Debt
  - Long-term liabilities
  - Capital outlay, depreciation and gain/loss on disposal
  - Changes in unavailable revenue

- Common error to have differences of $1 between statements, reconciliation and footnotes

Reporting Entity

Reporting Entity

- Component Units
  - When was the last time you evaluated your government's potential component units?
  - Evaluate potential component units **annually** in conjunction with:
    - GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*
    - GASB Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*

Reporting Entity

- Major Funds
  - Update your major fund analysis throughout the year, including during the audit and financial statement preparation
    - Major fund is missed due to consolidation of funds, new activity, or adjustments noted during the audit
    - Revisit once draft statements are complete

Management's Discussion and Analysis (MD&A)

www.CLAconnect.com

MD&A

- Ensure it includes a comparison of one year beyond time period covered
  - Single year report - 2 years compared
  - Comparative report - 3 years compared
- Appropriately reporting a restatement due to error correction or accounting changes
- Length
  - Should be high level overview, not a novel
  - Missing elements (e.g. description of currently known facts, decisions or conditions affecting the future)

MD&A

- Editorial comments – keep to a minimum, this is not a political document
- Use of acronyms which are not defined
- Use of charts
  - Percentages 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
- Answer the most important question: ***Why***?

Internal Integrity

Internal Integrity

- Statements don't agree among themselves
  - Interfund balances
    - Due to does not equal due from.
    - Transfer in does not equal transfer out.
  - Net position/fund balance
    - Net position/fund balance does not agree between balance sheet and income statements.
- Footnotes
    - Amounts included in the statements do not correspond with the amounts in the footnotes.
    - Debt activity in the governmental funds operating statement and the proprietary funds cash flows does not agree with the footnotes.

Internal Integrity (continued)

- Amounts included in the reconciliations do not correspond with the amounts in the footnotes
  - Debt
  - Long-term liabilities
  - Capital outlay, depreciation and gain/loss on disposal
  - Changes in unavailable revenue
- Common area to have differences of $1 between statements, reconciliation and footnotes

Financial Statements

Financial Statements

- Incorrect titling/ terminology
  - "As of" vs. "Year Ended“
  - Statement of Net Position vs. Balance Sheet
  - Deferred vs. Unearned
- Net investment in capital assets
  - Incorrect calculation
    - Omits unspent bond proceeds
    - Omits retainage payable
    - Omits lease and SBITA liabilities

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
  - Capital items related to accounts or retainage payable

Financial Statements (continued)

- Nonmajor funds
  - Use of more than one column
  - Failure to label on the face of the statements
    - Can lead to other issues if there is a legally adopted budget
- Fiduciary Funds
  - Presentation of a separate column for the OPEB and Pension trust funds
    - Can only have one Pension trust fund which must include the OPEB trust
    - Individual fund info should be shown in the footnotes

Financial Statement (continued)

- Budget to actual comparison
  - Include for the general fund and all major special revenue 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

Footnote Disclosure

Commonly Missed Footnote Disclosure Items

Cash and Investments

- Statements should correlate with the GASB 40 footnote and the GASB 72 footnote
  - Suggest including a reconciliation in either/both footnotes to provide road map back to the statements
- Leveling for FMV under GASB 72 -Inquire with your investment advisor if level or method (NAV) changes between years – ask why.
- Required for both of the government AND the single-employer pension plans (or similar)

Compensated Absences – (Post GASB 101)

- No longer disclose the source fund(s) the liability will be liquidated from
- If reporting the additions and reductions at net, you must add notation indidicating this fact
- Update the significant accounting policies and procedures note using the proper terminology and including all leave categories

Commonly Missed Footnote Disclosure Items

Debt Footnote

- Missing maturity dates and/or interest rates for individual debt issues.
- Debt service table required to separate the principal and interest columns.

Pension and OPEB

- If the employer participates in multiple pension plans, total pension amounts must be disclosed in the footnotes.
  - FRS and HIS for example
- If the discount rate changed from prior year, you must disclose the change in the employer statements.

Commonly Missed Footnote Disclosure Items (Continued)

Budget Disclosures

- Budget violations
- Amendments to budget

Net Position and Fund Balance

- Use of restricted vs. unrestricted
- Deficit net position and fund balances
- Assignment of fund balance for open encumbrances
- Assignment of fund balance for the subsequent year's budget

Prior Period Adjustments

- When restatement impacts roll-forward disclosures (capital assets and long-term liabilities), you must note the beginning balances are restated

In Summary

- Develop timelines and process for preparing financial reports
- Ensure your systems are able to output the necessary information
- Ensure that financial statements are reviewed in detail by personnel with training and knowledge
- Use a disclosure checklist and/or the GFOA checklist
- Perform an analytical review compared to the prior year ACFR
- Consider outsourcing any part of the process

GASB 103 Financial Reporting Model Improvements

Effective date is fiscal years beginning after June 15, 2025 (6/30/26 & 9/30/26)

The Basics

Earlier application is encouraged

If primary government chooses early implementation, all component units should implement in the same year, subject to the provisions of Statement 14, para 59

Changes adopted at transition should be reported as a change in accounting principle in accordance with Statement 100.

Illustrative examples are included within the text of the Statement

What Areas Will Change?

- Management's Discussion and Analysis (MD&A)
- Unusual or Infrequent Items
- Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position
- Major Component Unit (CU) Reporting
- Budgetary Comparison Information
- Statistical Section Financial Trends

Management's Discussion and Analysis

GASB 34 (old)	GASB 103 (new)
• Government wide and fund analyses – Include reasons for significant changes and discussion of economic factors • Budgetary Variations – Discussion of significant general fund budgetary variances required • Capital Assets – Activity, Commitments • Long Term Debt – Activity, Changes in Credit Ratings and Debt Limitations • Currently Known Facts, Decisions, and Conditions – no explicit guidance	• Government wide and fund analyses – Reasons for change, economic factors, **significant policy changes and economic factors** • Budgetary Variations - No longer required to be in MD&A • Capital Assets - **Additions/disposals**, **Changes to** Commitments, **Policy Changes and Economic Factors** • Long Term **Financing** – Activity, Changes in Credit Ratings and Debt Limitations, **Policy Changes and Economic Factors, Explicitly includes Leases, SBITA, PPP** • Currently Known Facts, Decisions, and Conditions – **Economic/demographic trends, subsequent year's budget, expected changes in budgetary net position or fund balance, actions after end of reporting period by both the government and other parties**

Unusual and Infrequent Items

GASB 34/62 (old)	GASB 103 (new)
• Extraordinary or special depending upon certain factors relating to whether an event is unusual or infrequent • Shown prior to transfers on Statement of Activities • Disclose unusual/infrequent items NOT within management's control	• **Unusual or infrequent** • **Last item** prior to net change on government-wide, governmental fund, and proprietary fund statements of resource flows • Explicit requirement **not** to net inflows/outflows • Disclose whether unusual/infrequent items **are** within management's control • Disclose the **program, function, or identifiable activity** to which an unusual/infrequent item is related

Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

GASB 34, as amended (old)	GASB 103 (new)
• Operating revenues/expenses - Follow established policy for defining • Nonoperating revenues and expenses - Items not meeting definition of operating, typically capital and noncapital related financing, and investing activities • Subsidies – not defined in technical guidance	• Operating revenues and expenses = revenues and expenses **other than nonoperating** • Nonoperating revenues and expenses = **Subsidies**, financing related, capital asset/inventory disposals, investment income/expenses, contributions to permanent/term endowments (Exceptions apply if such transactions constitute the fund's principal ongoing operations)

What are Subsidies?

Resources received from another party or fund

for which the proprietary fund does not provide goods and services to the other party or fund

that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise

Resources provided to another party or fund

for which the other party or fund does not provide goods and services to the proprietary fund

that are recoverable through the proprietary fund's current or future pricing policies

All other transfers

Major Component Unit Reporting

GASBs 14 and 34, as amended (old)	GASB 103 (new)

• Three options for presenting:
  • Separate column for each major discretely presented CU in the government wide financial statements
  • Combining statements after the fund financial statements
  • Condensed financial statements in the footnotes
	• **Separate** column in the government-wide financials for **each** major component unit unless readability is reduced
	• If readability is reduced, combining statements after the fund financials are allowed

Budgetary Comparison Information

GASBs 34 and 37, as amended (old)	GASB 103 (new)
• Required Supplementary Information (RSI) or basic financial statements • Variances between original/final budget not required • Variances between final budget and actual amount not required	• **Always RSI** • Variances between original/final budget **required** • Variances between final budget and actual amount **required** • Explanation of significant variations in notes to RSI

Statistical Section

GASBs 34 and 37, as amended (old)	GASB 103 (new)
• No explicit requirement to distinguish revenue types when only business-type or business-type/fiduciary activities	• Governments engaged only in business-type/business-type and fiduciary activities – present revenues by **major source** for business-type activities • **Distinguish between operating, noncapital subsidy, and other nonoperating revenue/expenses**

How Can I Prepare?

1. Review current financial statement formatting
2. Review policies for defining operating revenues and expenses to understand potential changes
3. Identify sources of subsidies
4. Identify sources of explanations for enhanced MD&A/RSI reporting
5. Coordinate with any component units

The Popular Annual Financial Report – The Basics

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County-wide Constitutional Officer

Article VIII, Section 1(d) of the Florida Constitution recognizes the role of the Clerk of the Circuit Court as an independently elected Constitutional Officer.
The Clerk serves alongside the:

- **Sheriff**
- **Tax Collector**
- **Property Appraiser**
- **Supervisor of Elections**
- **State Attorney**
- **Public Defender**
- **Superintendent of Schools**

Article V, Section 16 defines the title of Clerk of the Circuit Court, but the position also serves as:

- **Clerk to the Court**
- **Ex-Officio Clerk of the Board of County Commissioners**
- **County Recorder**
- **Custodian of all County Funds**
- **County Auditor**

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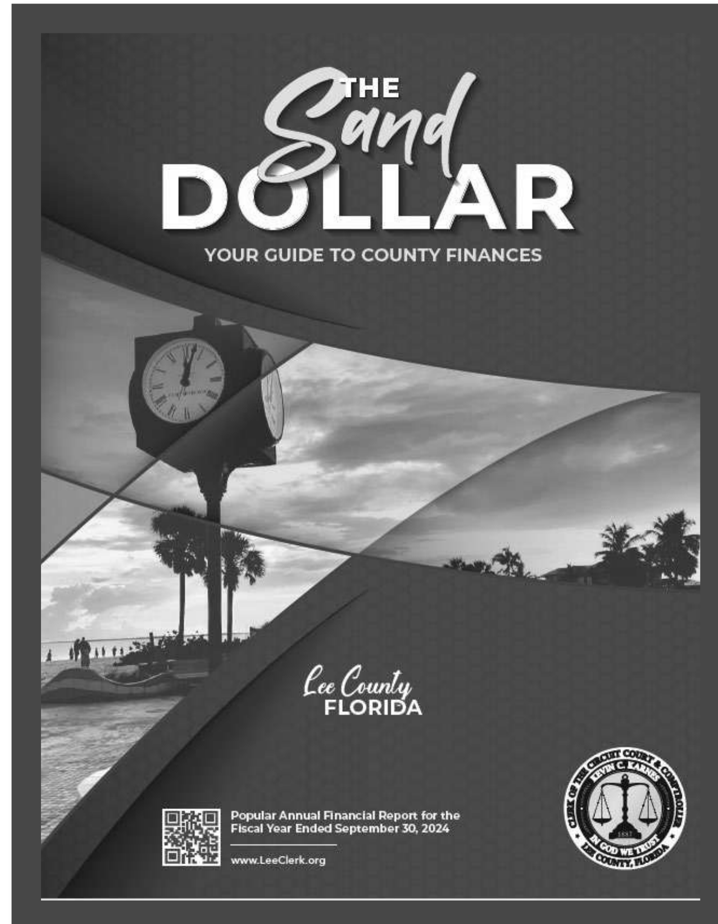
The Sand Dollar

Condenses a 250+ page financial report into a 23 page publication

Available on www.leeclerk.org/thesanddollar

FY21, FY22, FY23 & FY24 are available



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Management….of your *county* tax dollars

Tax dollars are mostly derived from:

- Ad valorem taxes *(property)*
- Non ad-valorem taxes *(services)*
- Other taxes, fees, & tolls
- Grants & legislative appropriations
- Interest & miscellaneous revenues

Budget process is outlined in Florida Statute

Property Appraiser	Tax Collector	County Commission	Clerk & Comptroller
Assessment & Exemptions	Collect & Disperse	Approve Budget Set Policy Spend $	Pay Invest Report Audit

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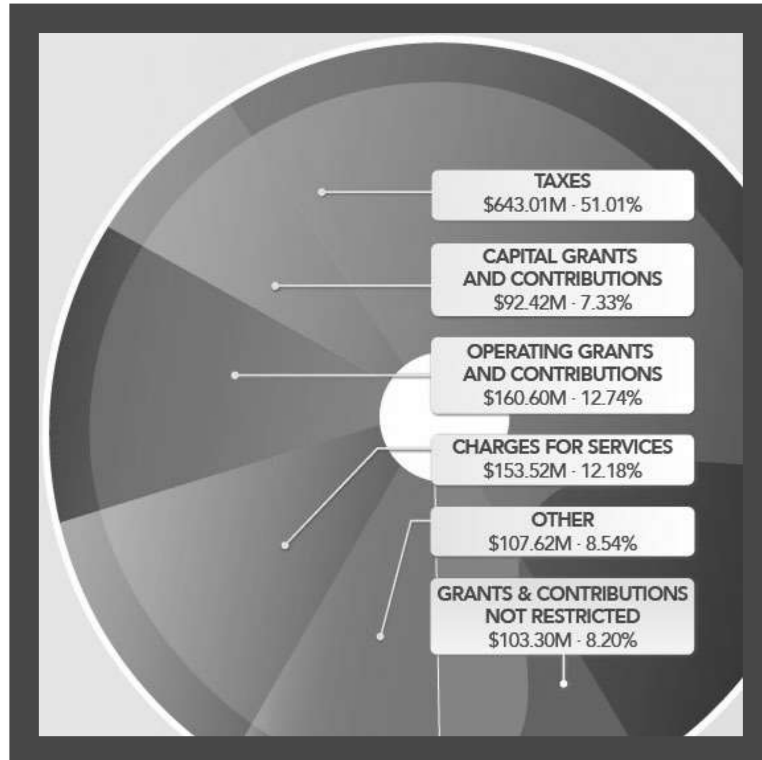
Management….of your *county* tax dollars

Taxes generate nearly ½ of all revenue for the county

Examples of some taxes include:
½ cent sales tax | Gas tax | Tourist tax

Capital and Operating grants are a combination of federal, state, and private contributions



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Spending…of your <u>*county*</u> tax dollars *(what)*

RESIDENT SERVICES

General Government
Lee County government, county attorney, county planning, hearing examiner, court services, Supervisor of Elections, and the Clerk of the Circuit Court's finance, value adjustment board, recording, and board services functions.

Public Safety
Sheriff, fire control, county jail, protective inspections, emergency & disaster relief, ambulance & rescue services, medical examiner and animal services.

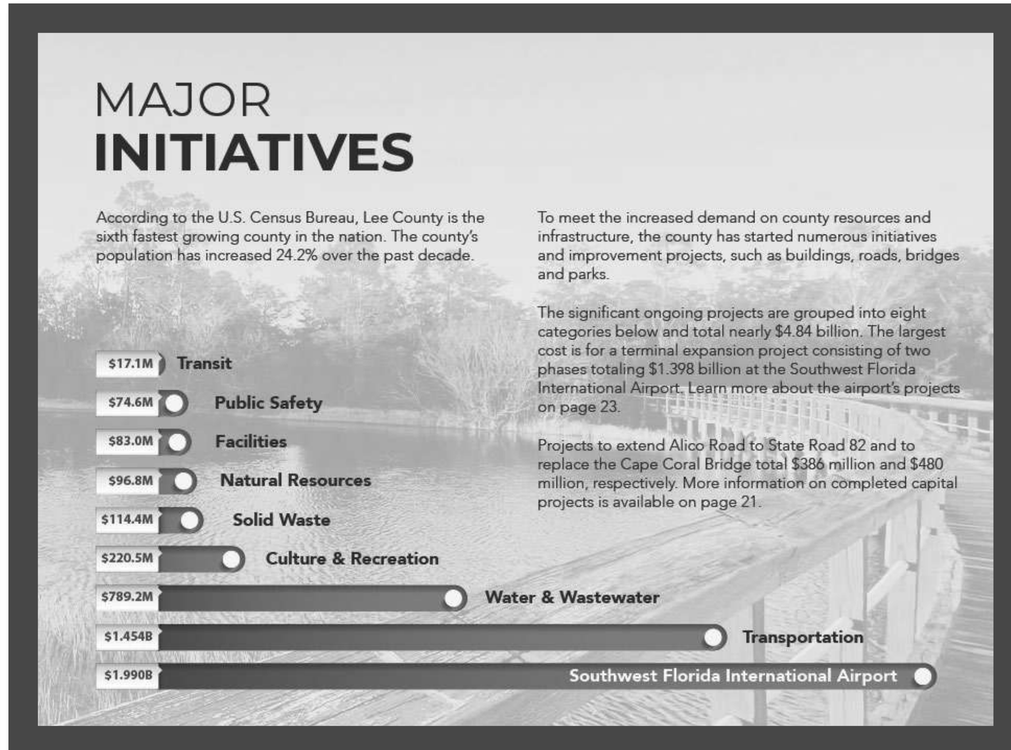
Culture & Recreation
Library costs, recreational programs, public parks and preservation lands.

Transportation
Roads, bridges, traffic engineering, and transit systems (Lee Tran).

Physical Environment
Electric, water services, garbage/solid waste control, recycling, sewer services, hazardous waste, conservation and resource management, flood control, extension services, and other physical environmental needs.

Human Services
Care, treatment, and control of human illness and injury, such as Health Department, family services and community agency support.

Economic Environment
Economic Development, Visitor and Convention Bureau, Veterans Services, Sports Authority, and neighborhood improvements.



MAJOR INITIATIVES

According to the U.S. Census Bureau, Lee County is the sixth fastest growing county in the nation. The county's population has increased 24.2% over the past decade.

$17.1M	Transit
$74.6M	Public Safety
$83.0M	Facilities
$96.8M	Natural Resources
$114.4M	Solid Waste
$220.5M	Culture & Recreation
$789.2M	Water & Wastewater
$1.454B	Transportation
$1.990B	Southwest Florida International Airport

To meet the increased demand on county resources and infrastructure, the county has started numerous initiatives and improvement projects, such as buildings, roads, bridges and parks.

The significant ongoing projects are grouped into eight categories below and total nearly $4.84 billion. The largest cost is for a terminal expansion project consisting of two phases totaling $1.398 billion at the Southwest Florida International Airport. Learn more about the airport's projects on page 23.

Projects to extend Alico Road to State Road 82 and to replace the Cape Coral Bridge total $386 million and $480 million, respectively. More information on completed capital projects is available on page 21.

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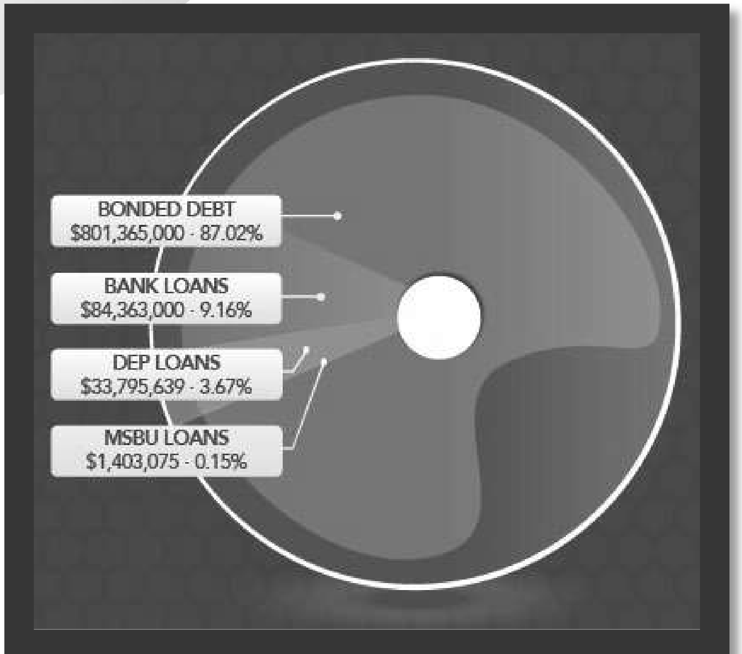
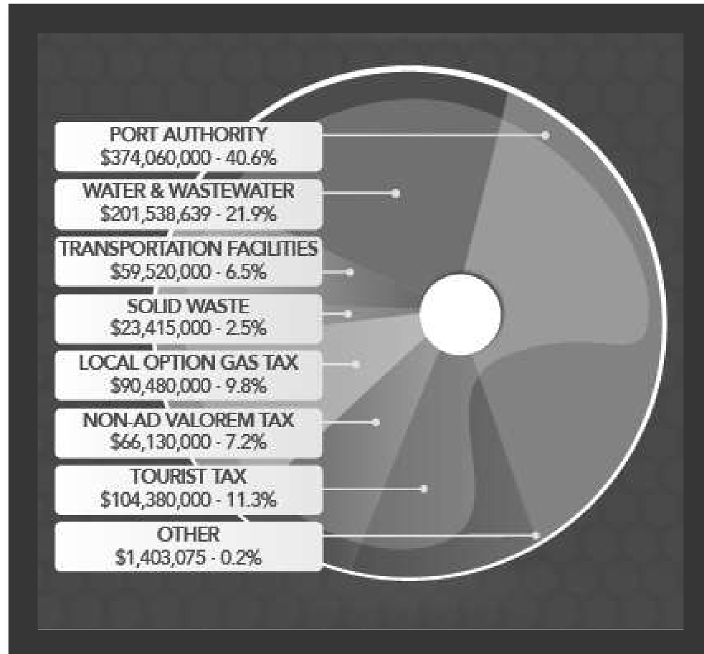
Spending…of your *county* tax dollars *(how)*

- **BoCC sets policy on the spending of your county tax dollars**
- **Most expenditures over $100K require a vote of the County Commission**
- **Clerk pre-audits the expenditure & pays amount due**
- **Clerk prepares monthly reports for County Commissioner review**
  Monthly Financial Report | Monthly Report of all Disbursements

Spending…of your *county* tax dollars





Investing…your *county* tax dollars

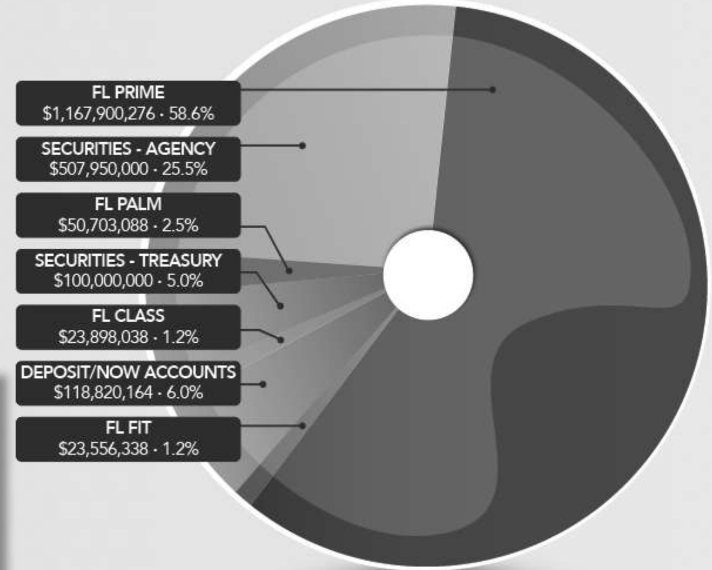
The Clerk & Comptroller manages the county's investment portfolio. Primary objectives include:

- Safeguard the principal
- Ensure liquidity to meet daily cash needs
- Maximize investment earnings

Portfolio Allocations

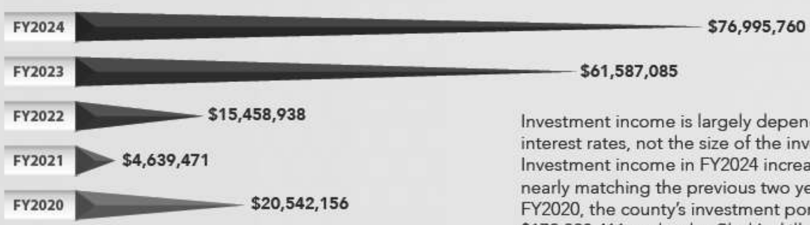
as of Sept. 30, 2024

The county's investment portfolio stood at **$1.99 billion** at the end of Fiscal Year 2024. Of the seven primary investment categories, more than 84% of the portfolio are invested in Florida Prime and Securities - Agency.



Investment Income

FY2020 - FY2024



Investment income is largely dependent on federal interest rates, not the size of the investment portfolio. Investment income in FY2024 increased by $15.4 million, nearly matching the previous two years combined. Since FY2020, the county's investment portfolio has generated $179,223,411 under the Clerk's skilled fiscal stewardship.

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Important considerations…

The Clerk <u>only</u> invests in bonds

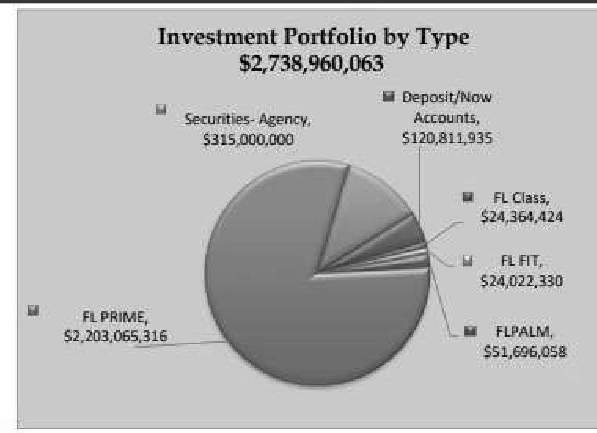
- Policy is approved by the Board and supported by Florida Statute
- Partners only with Fed approved vendors
- Transactions monitored by an Investment Committee
- Subject to External Audit review
- Mismanagement of tax dollars is a jail-able offense, unlike other Clerk duties

Liquidity and cash flow needs are key

- Clerk works closely with County Manager's Office
- Historical trend for "need" is approximately $563 million
- Special preparations are made for emergency declarations

Interest earned is earmarked & has strict rules

As of February 2025:



Financial Highlights for Port Authority

Net Position = $835,235,000
Increase of $111,846,000 or 15.5% from FY23

Revenues = $134,271,000
Operating expenses = $140,591,000

Outstanding Debt
$374,060,000 *(40.6% of Lee County's debt)*

Major Capital Spending
- $1.067 billion: Phase 2 terminal expansion
- $331.6 million: Design of terminal expansion

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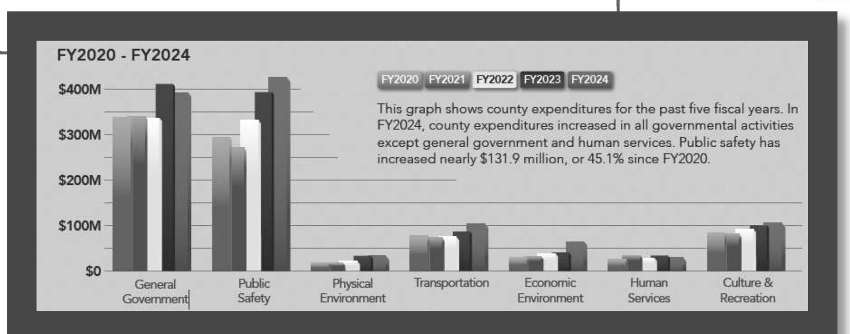
Financial Highlights for BoCC

FY24 total net position = $3,683,227
Increase of 11.22% from FY23
FY23 = $3, 311,522,000 (-0.24%)
FY22 = $3,319,620,000 *(+5.26%)*

Revenue increased by $74.4 million *(FY2024)*
Increase from taxes, capital grants, contributions, investment earnings

Expenses incurred
= $1.70 billion



Debt obligations = $920.9 million
Decrease of $54.1M from FY23
- Bonded = $801M (87.02%)
- DEP Loans = $34M (3.67%)
- Bank Loans = $84M (9.16%)
- MSBU Loans = $1.4M (0.15%)

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How does the Clerk save you money?

Pre-audit of all county expenditures

Post-audit of all county and port authority departments

Inspector General Hotline

External auditors review our work every year

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THANK YOU!

Kevin C. Karnes
Lee County Clerk of Court & Comptroller

Christopher (Chris) Kessler, CPA
Principal
CLA

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