

# **THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)**

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# AGENDA

- ACFR contents and purpose
- Three basic sections
  - Introductory section analysis
  - Financial section analysis
  - Statistical section analysis

# WHY AN ACFR?

- An ACFR is not required, but it's encouraged.
- Provides an additional level of detail of:

**STRUCTURE,  
ENVIRONMENT, AND  
SERVICES**

**INDIVIDUAL FUNDS**

**HISTORICAL  
“TREND” DATA**

# WHY AN ACFR?

- Awards!



## GFOA CERTIFICATE OF ACHIEVEMENT

- <https://www.gfoa.org/coa-award>



## ASBO CERTIFICATE OF EXCELLENCE

- Schools Only
- [https://asbointl.org/Web/Awards/COE/Certificate\\_of\\_Excelsence.aspx](https://asbointl.org/Web/Awards/COE/Certificate_of_Excelsence.aspx)



## OHIO AUDITOR OF STATE AWARD WITH DISTINCTION

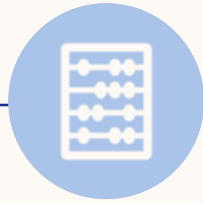
- <https://ohioauditor.gov/financial/awards.html>

# PURPOSE OF AN ACFR

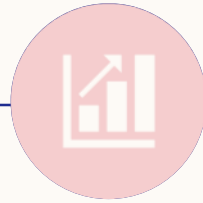
- A set of basic financial statements for a typical state or local government can present real challenges to a potential user, including:
  - Lack of individual fund data for demonstrating and accessing accountability
  - Insufficient format and content to demonstrate compliance
  - Significance of information without prior data
- The ACFR is designed to respond to these challenges by supplementing the basic financial statements.

# STRUCTURE AND CONTENT

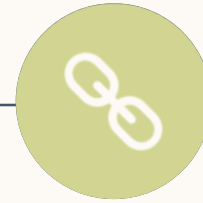
- Every ACFR includes, at a minimum, three basic sections:



**INTRODUCTORY  
SECTION**



**FINANCIAL  
SECTION**



**STATISTICAL  
SECTION**

- The basic structure and contents of an ACFR are set by authoritative accounting and financial reporting standards

# COVER AND TITLE PAGE

- COVER:
  - Should use the specific term “Annual Comprehensive Financial Report” to identify the report and indicate the periods covered
  - The name of the government should include the state or territory which it is located
- TITLE PAGE:
  - Should reproduce all info from the cover of the report
  - Should also present which department was responsible for preparing it



**INTRODUCTORY  
SECTION**



# INTRODUCTORY SECTION

Accounting and financial reporting standards prescribe that the introductory section of a ACFR contain:

- Table of contents
- Letter of transmittal
- Other material deemed appropriate by management which could include
  - Organizational chart
  - List of principal/elected officials
  - Certificate of Achievement (GFOA) or Certificate of Excellence (ASBO) from prior year (if applicable)

# TABLE OF CONTENTS

- Format should clearly separate the sections of the ACFR
- Mark subsections of the financial section, distinguishing the financial statements
- Schedules should be referred to by their full title, accompanied by a reference to a page number



# LETTER OF TRANSMITTAL

- Helpful for less experienced users of financial reports
- Recommended to keep the discussion simple and straightforward
- The use of charts and graphs can enhance the usefulness of the letter for inexperienced users
- Requirements:
  - Presented on Entity letterhead
  - Dated on or after audit opinion date
  - Addressed to the citizens and signed by the CFO and the CEO
  - State management is responsible for contents of the report

# LETTER OF TRANSMITTAL

GFOA recommends that the letter of transmittal be divided into four sections:

- Formal Transmittal
- Profile of the government
- Information useful in assessing a government's economic condition
- Awards and acknowledgements



# LETTER OF TRANSMITTAL – FORMAL TRANSMITTAL

- The letter of transmittal was designed to:
  - Describe what it accompanied; and
  - Explain why it was being sent
- Should refer readers to the independent auditor's report
- Also refer to the MD&A and explain that the two presentations are intended to complement each other





# **LETTER OF TRANSMITTAL – PROFILE OF THE GOVERNMENT**

Even governments of the same basic type may differ significantly from one another in important ways.

This section should address the following:

- Population
- Structure
- Types and levels of services provided
- Component units
- Potential component units that were excluded from the report
- Brief summary of the budgetary process
- Governmental funds with an annual or biennial appropriated budget
- Legal level of budgetary control

# LETTER OF TRANSMITTAL – ASSESSING A GOVERNMENT’S ECONOMIC POSITION

GFOA recommends that this section of the letter of transmittal provide relevant information on:

- Local economy
  - Major industries, unemployment, historical trends and future prospects
- Long-term financial planning
  - Revenue and expenditure forecasting, capital budgeting
- Relevant financial policies
- Major initiatives
- Tax abatements



# LETTER OF TRANSMITTAL – AWARDS AND ACKNOWLEDGEMENT

- Should include objective indicators of the quality of the government's financial management
- Management also uses the letter of transmittal to acknowledge those who played a significant role in the ACFR





# **INTRODUCTORY SECTION – OTHER MATERIAL**

## **ORGANIZATIONAL CHART**

Often this chart is formatted to visually emphasize that all the governments powers derive from its citizens.

## **LIST OF PRINCIPAL OFFICIALS**

Officials that held a position during the period covered, sometimes this section is combined with the organizational chart.

## **CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

Governments that have achieved the GFOA's certificate for achievement in the prior year normally reproduce a copy of the award in the introductory section.



**FINANCIAL  
SECTION**

# FINANCIAL SECTION

The financial section of the ACFR should include:

- Independent Auditor's Report
- MD&A
- Basic financial statements – including Notes, RSI (other than MD&A) and Notes to the RSI
- Combining statements (nonmajor funds and discretely presented component units)
- Individual fund financial statements and schedules





# **FINANCIAL SECTION – REPORT OF THE INDEPENDENT AUDITOR**

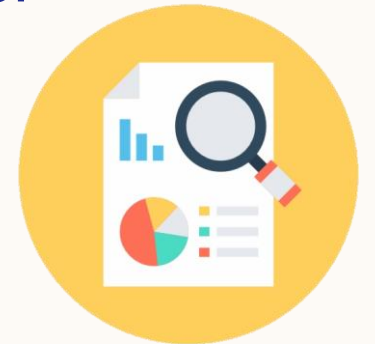
- The role of the financial statement auditor is to provide users of the report with independent assurance that they can reasonably rely upon those statements
- Independent Auditors offer a fair opinion on:
  - Government and business-type activities
  - Each major governmental fund
  - Budgetary comparisons for the general fund and major special revenue funds presented as basic financial statements
  - Each major enterprise fund and other funds
  - Discretely presented component units

# **FINANCIAL SECTION – MANAGEMENT'S DISCUSSION & ANALYSIS**

- The purpose of MD&A is to furnish an objective and easily readable analysis of a government's financial activities.
- The MD&A should contain:
  - A discussion of the basic financial statements
  - Condensed comparative data
  - An analysis of the governments overall financial position
  - An analysis of the balance and transactions of individual funds
  - An analysis of the general fund budgetary variations
  - A description of capital asset and long-term debt activity
  - A discussion of currently known facts, decisions, or conditions of future significance

# FINANCIAL SECTION – FINANCIAL STATEMENTS

- Financial statements prepared in compliance with Generally Accepted Accounting Principles (GAAP)
- Accruals!
- Major differences from OCBOA Reporting include:
  - Capital Assets
  - Receivables
  - Payables
  - Long-term debt
  - Deferred inflows and outflows
  - Pension and OPEB asset/liability reporting (GASB 68 & 75)
  - Required Supplementary information (RSI) for GASB 68 and 75



# FINANCIAL SECTION – FINANCIAL STATEMENTS

- Basic Financial Statements
  - Government-wide Statements
    - Statement of net position
    - Statement of activities
  - Fund Statements
    - Balance sheet – governmental funds
    - Statement of revenues, expenditures, and changes in fund balance (governmental funds)
    - Statement of revenues, expenditures, and changes in fund balances – budget & actual (general fund and major special revenue funds)
    - Statement of net position (proprietary funds)
    - Statement of revenues, expenses and changes in fund net position (proprietary funds)
    - Statement of cash flows (proprietary funds)
    - Statement of fiduciary net position
    - Statement of changes in fiduciary net position
- Each statement should reference the notes to the basic financial statements



# **FINANCIAL SECTION – FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE STATEMENTS**

- Accrual basis of accounting
- Consolidated entity-wide information, excluding fiduciary activities
- Governmental activities and business-type activities

## **FUND STATEMENTS**

- Governmental funds – modified accrual basis of accounting
- Proprietary and fiduciary funds – accrual basis of accounting
- Focus on major funds (governmental and proprietary) or fund type (fiduciary)



# FINANCIAL SECTION – FINANCIAL STATEMENTS

- Notes to the Basic Financial Statements
  - Summary of Significant Accounting Policies (SSAP)
  - Detailed notes of activities and funds:
    - Assets
    - Liabilities
    - Deferred outflows and inflows of resources
    - Fund balance / net position
    - Revenues and expenditures/expenses
    - Interfund transactions and balances
  - Component Units and Related Organizations
  - Contingencies
  - Subsequent Events

# FINANCIAL SECTION – FINANCIAL STATEMENTS

- Required Supplementary Information (RSI)
  - Pension and other post-employment benefits
    - 10-year schedule of entity's proportionate share of the net pension/OPEB liability/asset
    - 10-year schedule of entity's pension and post-employment benefits contributions
  - Budget and actual schedule for general fund and major special revenue fund
    - Only if not presented as a basic financial statements
  - Notes to the RSI
    - Budgetary information: budgetary basis, reconciliation to GAAP basis
    - Pensions and OPEB: changes to benefit terms, changes in assumptions



# **FINANCIAL SECTION – COMBINING FINANCIAL STATEMENTS**

- A key objective of the ACFR is to provide users access to data for each individual fund and discretely presented units
- ACFR must provide information for all the following, if applicable:
  - Non major governmental and enterprise funds
  - Internal service fund
  - Pension trust fund
  - Investment trust fund
  - Private purpose trust fund
  - Custodial fund
  - Nonmajor discretely presented component units

# FINANCIAL SECTION – COMBINING FINANCIAL STATEMENTS

- Used to support every column in the basic fund financial statements that aggregates data from more than one fund
- A cover page should precede each set of combining statements
  - Should offer a description of the nature and operation of each of the individual funds or component units



# FINANCIAL SECTION – INDIVIDUAL FUND STATEMENTS

- Individual Fund Statements
  - Present additional information not available in the basic or combining financial statements
    - Detailed budgetary comparisons for general fund and major special revenue funds
    - Budgetary comparisons for all other funds with an annual budget
  - Organized by fund type
    - Special revenue, debt service, enterprise, etc.

The graphic features a large light gray circle in the center. To its right is a donut chart with a black segment on the left and a blue segment on the right. In the bottom-left corner, there is a light blue triangle and a black triangle pointing towards the center. The text 'STATISTICAL SECTION' is centered within the gray circle in a bold, blue, sans-serif font.

**STATISTICAL  
SECTION**

# STATISTICAL SECTION

- The statistical section offers operational, economic, and historical data that provide a context for assessing a government's economic condition.
- The data includes:
  - Financial trends
  - Revenue capacity
  - Debt capacity
  - Demographic and economic information
  - Operating information



# STATISTICAL SECTION – FINANCIAL TRENDS

- Evaluate how financial position has changed over time
- 10-year comparison of financial data:
  - Components of net position
  - Changes in net position
  - Governmental fund balance
  - Changes in governmental fund balances
- Agree to previous audit reports and current year financial statements





# STATISTICAL SECTION – FINANCIAL TRENDS

- Components of net position
  - Net investment in capital assets, restricted, unrestricted
  - Governmental activities, business-type activities, total primary government
  - No requirement (although allowable) to break out components of restricted net position
- Changes in net position
  - Expenses, program revenues, net (expense) revenue, general revenues and other changes in net position, total change in net position
  - Internal service funds
- Combining statement of fiduciary net position, statement of changes in fiduciary net position
- Cover page precedes each set of combining statements description of each individual fund

# STATISTICAL SECTION – REVENUE CAPACITY

- It is important to be able to assess a government's capacity to raise revenue as needed, as they do not have unlimited resources
- Assist users in understanding the government's ability to generate local revenues
- Governments are directed to provide four schedules regarding their most significant single own-source revenue that provide:
  - Revenue base (10 years)
  - Revenue rates (10 years)
  - Principal revenue payers (current year and 9 years prior)
  - Property tax levies and collections (10 years)

# STATISTICAL SECTION – REVENUE CAPACITY

- Revenue Base
  - Presented by major component
    - Property taxes: assessed value by major category, and estimated actual value of total taxable property
  - Direct rate(s) applied to that base
- Revenue Rates
  - Direct rate, both in total and individual rates
  - Overlapping governments
- Principal Revenue Payers
  - Top 10, unless fewer than 10 is needed to reach 50% of total payments
  - Amount paid by each, as a dollar amount and as a percentage of total payments
- Property Tax Levies and Collections
  - Levy amount
  - Collections as of the end of the first period, as dollar amount and as a percentage of levy
  - Collections in subsequent periods
  - Total collections to date, as a dollar amount and as a percentage of the levy

# STATISTICAL SECTION – DEBT CAPACITY

- Assist users in understanding government's debt burden and a government's ability to issue new debt
  - Ratios of outstanding debt and general bonded debt (10 years)
  - Direct and overlapping debt (current year)
  - Debt limitations (10 years)
  - Pledged revenue coverage (10 years)



# STATISTICAL SECTION – DEBT CAPACITY

- Ratios of Outstanding Debt
  - Governmental activities debt by type
  - Business-type activities debt by type
  - Total debt
  - Ratio of total debt to personal income (or relevant economic base)
  - Total debt per capita
- Ratios of General Bonded Debt
  - By type and in total
  - Ratio of general bonded debt to estimated actual value of taxable property
  - General bonded debt per capita
  - If resources are externally restricted to the repayment of debt
    - Shown as a reduction to general bonded debt
    - Table presents total and ratios of net general bonded debt

# STATISTICAL SECTION – DEBT CAPACITY

- Direct and Overlapping Debt
  - Government's own debt and debt of other overlapping governments
  - Only governmental activities debt
  - Overlapping debt should include the percentage applicable to the government and the government's share of that debt
    - Calculated as overlapping portion of the government's revenue base / total revenue base of overlapping government
- Debt Limitations
  - Amount of legal debt margin for the last ten years
  - Calculation of current year's legal debt margin
    - Only include debt applicable to limit
  - One of two ratios
    - Legal debt margin / legal debt limit; or,
    - Outstanding debt / legal debt limit

# STATISTICAL SECTION – DEBT CAPACITY

- Pledged Revenue Coverage
  - Non-general obligation debt secured by pledge of specific revenue source
  - Calculate the coverage ratio
    - Net available revenue / debt service payments (principal and interest)
    - Gross revenues, less specified operating expenses = net available revenue
      - Certain non-cash expenses are excluded (e.g., depreciation)



# STATISTICAL SECTION – DEMOGRAPHIC AND ECONOMIC INFORMATION

- Assist users in understanding the environment in which the government's financial activities occur
  - Population (10 years)
  - Personal Income and Per Capita Personal Income (10 years)
  - Unemployment Rate (10 years)
  - Principal Employers (current year and 9 years ago)







# **STATISTICAL SECTION – DEMOGRAPHIC AND ECONOMIC INFORMATION**

- Principal Employers
  - Top 10, unless fewer are needed to account for 50% of total employment
  - Employment figure for each
  - Percentage of total employment for each
  - If legally prohibited for disclosing such information, alternative data may be presented
    - Range of employment for each, employment by type (retail, manufacturing, etc.)

# STATISTICAL SECTION – OPERATING INFORMATION

- Assist uses in understanding government's size and scope of operations and resources
  - Number of employees by function/activity (10 years)
  - Operating indicators by function/activity (10 years)
  - Volume, usage or nature of capital assets by function/activity (10 years)



# QUESTIONS?

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