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# City of Detroit CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director   
Legislative Policy Division Staff

DATE: March 2, 2022

RE: "What is in the Governmental Financial Statements?" A Primer to the Annual  
Comprehensive Financial Report (ACFR)

The Legislative Policy Division (LPD) in this memorandum provides attached document to the City Council. This document provides a general overview and the purpose of the Annual Comprehensive Financial Report (ACFR).

We also should note that the attached document refers this report as the Comprehensive Annual Financial Report (CAFR) instead of the Annual Comprehensive Financial Report (ACFR).

The acronym "CAFR" generally pronounced as KAFF-ur sounds like a profoundly offensive term directed at Black South Africans; and the Governmental Accounting Standards Board (GASB) recognized how harmful this acronym is and on October 19, 2021, issued GASB Statement No. 98 which renamed this report to the Annual Comprehensive Financial Report (ACFR). The adoption of the name change is effective for fiscal years ending December 15, 2021, and after. However, GASB encouraged earlier adoption; and the City of Detroit adopted GASB Statement No. 98 as of its fiscal year ending June 30, 2021.

Please let us know if we can be of any more assistance.

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# City of Detroit

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TO: The Honorable City Council

FROM: David Whitaker, Director   
Legislative Policy Division Staff

DATE: September 15, 2015

RE: "What is in the Governmental Financial Statements?" A Primer to the Annual Comprehensive Financial Report

The Legislative Policy Division (LPD) in this memorandum provides the City Council a general overview and purpose of the Annual Comprehensive Financial Report (ACFR).

### Executive Summary

The typical Annual Comprehensive Financial Report (ACFR) provides the reader a comprehensive picture of a government's financial condition over the course of a year. The ACFR reflects what the government has received in revenue, what it has spent, and what its status of assets and liabilities is at the end of a fiscal year. In addition, to gaining an understanding of the government's financial condition, the ACFR reader, as well as with obtaining other information, can assess the government's:

- solvency – the availability of assets to meet its obligations (liabilities);
- liquidity – cash and investments available to cover current obligations;
- debt burden – amount of long-term debt and means to retire it;
- compliance with finance related legal and contractual provisions;
- excess of expenditures over general fund appropriations;
- amount of tax revenues collected;
- assessed value of property in its jurisdiction;
- millage rates;
- property tax collection rates;
- pension and other legacy obligations;
- expenditures for services such as public safety;
- details on cash and investments;
- balances due to and due from between funds;

- transfers between funds;
- debt ratings; and
- major subsequent events after the fiscal year end and before the reporting date.

The major components of the ACFR are as follows:

Major Components of a Comprehensive Annual Financial Report (CAFR)	
Component	Contents of Component
Introductory section	General information on the government structure, services, financial condition, and environment
+	
Financial section	<ul style="list-style-type: none"> <li>*Managements' Discussion and Analysis</li> <li>*Financial Statements: Government-wide, Governmental Fund, Proprietary Fund, Fiduciary Fund</li> <li>*Notes to the Financial Statements</li> <li>*Additional Required Supplementary Information</li> <li>*Information on individual funds, discretely presented component units and other supplementary information not required by GAAP</li> </ul>
+	
Statistical section	Trend data and nonfinancial data

The foundation of the ACFR format is GASB (Governmental Accounting Standards Board) Statement No. 34, *Basic Financial-and Management's Discussion and Analysis-for State and Local Governments*, issued in June 1999. This statement created the biggest change in the history of governmental accounting and financial reporting. Statement No. 34 requires governments to produce the government-wide Statement of Net Position and Statement of Activities, which are similar in style to those used in the private sector. The standardized information in these statements is more comprehensive and comparable to other governments, as a result of GASB Statement No. 34.

Understanding the basis of accounting used in the preparation of the basic financial statements in the ACFR is important.

- The *government-wide financial statements (statement of net position and statement of activities), enterprise fund statements (e.g., water and sewer funds), and fiduciary fund statements (e.g., pension funds)* are presented in the ACFR using the full accrual basis of accounting<sup>1</sup> looking at total economic resources: all revenues earned and all operational expenses.
- The *governmental fund financial statements (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund)* are presented in the ACFR using the

<sup>1</sup> Accrual basis of accounting records revenues when earned and expenses are recorded at the time liabilities are incurred, regardless of when related cash flow takes place. For example, on an accrual basis of accounting property tax revenue is recorded in the fiscal year in which the taxes are levied.

modified accrual basis of accounting<sup>2</sup> which measures cash and all other financial assets that can readily be converted to cash.

Understanding how to interpret the financial statements in the ACFR is also extremely important. The approach taken to interpret government financial statements differ from the approach taken to interpret private sector financial statements: governments provide services to citizens whereas private sector entities focus on making a profit. Users of the ACFR should focus on the government's financial health using three different perspectives: near-term financing, financial position, and economic condition.

- **Near-term financing.** Will the government be able to pay its bills (both expected and unexpected) on time? Are its operating inflows adequate to cover its operating outflows?

The governmental fund financial statements are used to assess a government's near-term financing situation since their measurement focus is primarily near-term. The chief governmental fund is the *general fund*. Whether or not the general fund's "fund balance" (the difference between assets and liabilities) is in a surplus or deficit position is a key indicator of the financial health of a government. Another key indicator is the level of fund balance available to cover contingencies (e.g. budgetary shortfalls and natural catastrophes).

- **Financial condition.** Is the government's financial health improving or deteriorating?

The government-wide financial statements are used to best assess a government's financial condition since their measurement focus is primarily long term. For government-wide statement of net position (i.e., *balance sheet*), how net assets (difference between total assets and liabilities) changes over time can indicate how well a government is covering future cost of governmental operations with available resources over the long term.

- **Economic condition.** Is it likely that today's financial position will improve or deteriorate?

Much of the information needed for assessing economic condition involves either nonfinancial data (e.g. population and unemployment) or financial data presented for multiple years (e.g. 10-year trends). Such data typically are located either in the statistical section or as part of the required supplementary information of the ACFR.

Meanwhile, state and local governments will likely continue to face the stress and shortfalls caused by the Great Recession. In the City of Detroit, the economic condition is more fragile given the City's high level of unemployment, high poverty rates, and the shrinking population, tax base and labor force the City faces, notwithstanding the current spurts of positive economic

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<sup>2</sup> Modified accrual basis of accounting records revenues as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year, except for grants and trade receivables, which are 180 and 90 days, respectively. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt, claims and judgments, compensated absences, and other long-term obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. For example, on a modified accrual basis of accounting property tax levied in fiscal year 2014, but not received until September 2014 would not be recorded as revenue in the governmental fund statements in fiscal year 2014, but would be recorded as revenue in fiscal year 2015.

projects in concentrated areas of the City, such as in mid-town, downtown and certain neighborhoods of the City.

**Moving forward, it is imperative that both the Mayor and City Council focus on developing a fiscal sustainability model/process for the City of Detroit.** One definition of fiscal sustainability is “meeting the needs of the present without compromising the ability of future generations to meet their own needs”. Fortunately, the City already has the tools to develop a very robust fiscal sustainability plan, due to:

- Past ACFRs that contain a wealth of financial information to build a comprehensive trend analysis.
- The Plan of Adjustment (POA) coming out of bankruptcy that provided the City a “fresh start” by eliminating debt, established budget reserves, and provided funds for major investments to improve City services. The POA also contains a 10-year and 40-year financial plan to maintain the vitality of the City’s finances over the long haul if the assumptions associated with these plans materialize.
- The Mayor and the City Council are committed to abide by the POA.
- PA 181 of 2014 created the Financial Review Commission to provide wide-ranging oversight of the City’s finances.

The Mayor and the City Council should consider the following to adopt a fiscal sustainability plan for the City of Detroit:

- Adopt a fiscal sustainability policy using the Government Finance Officers Association (GFOA) Best Practice report on fiscal sustainability (Attachment II) and the financial sustainability framework developed by Yolo County, California (Attachment III) as guidelines.
- Revise the POA’s 10-year and 40-year plans using the latest ACFR information annually to reflect the most recent budget surplus or deficit information that is reported in the latest ACFR.
- Develop a 10-year fiscal sustainability model similar to the one used in Shoreline, Washington that contains revenue and expenditure modeling to assist in developing strategies to address when it is anticipated that revenues will not cover expenditures. The link to Shoreline’s plan is: <http://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project>.
- Revise the POA’s 10-year plan annually to reflect the status of the reinvestment and restructuring initiatives (RRI’s) and available resources to finance the RRI’s.

A robust fiscal sustainability model/plan would enable the City of Detroit’s elected officials to develop both revenue growth and expenditure containment strategies to address any foreseeable budget gaps.

Lastly, as a supplement to the ACFR, the Duggan Administration should produce what is called a “popular” annual financial report that contains the most basic and salient information from the ACFR in a more readable and user friendly format, using the guideline developed by the GFOA for popular financial reporting (Attachment IV), for readers who do not have a financial background.

### **Major Components of an ACFR**

Attachment I is a power point presentation entitled “Understanding the ACFR”. This presentation provides an excellent overview of the makeup of the ACFR and includes a sample ACFR highlighting the major components of the ACFR.

The Annual Comprehensive Financial Report (ACFR) presents a comprehensive picture of a government’s financial condition by combining the annual financial reports of the primary government and the related component units of the government. The ACFR describes what actually was received in resources and what was spent and the status of assets and liabilities at the end of the fiscal year.

Generally accepted accounting principles (GAAP)<sup>3</sup> have established the basic financial statements and the RSI (required supplementary information) as the minimum standard for financial reporting. At minimum, the ACFR comprises three basic sections: the introductory section, the financial section, and the statistical section<sup>4</sup>.

However, governments are expressly encouraged to go beyond these minimum requirements and to present a ACFR<sup>5</sup>. The ACFR and its relationship to the financial reporting model are illustrated in the following chart:

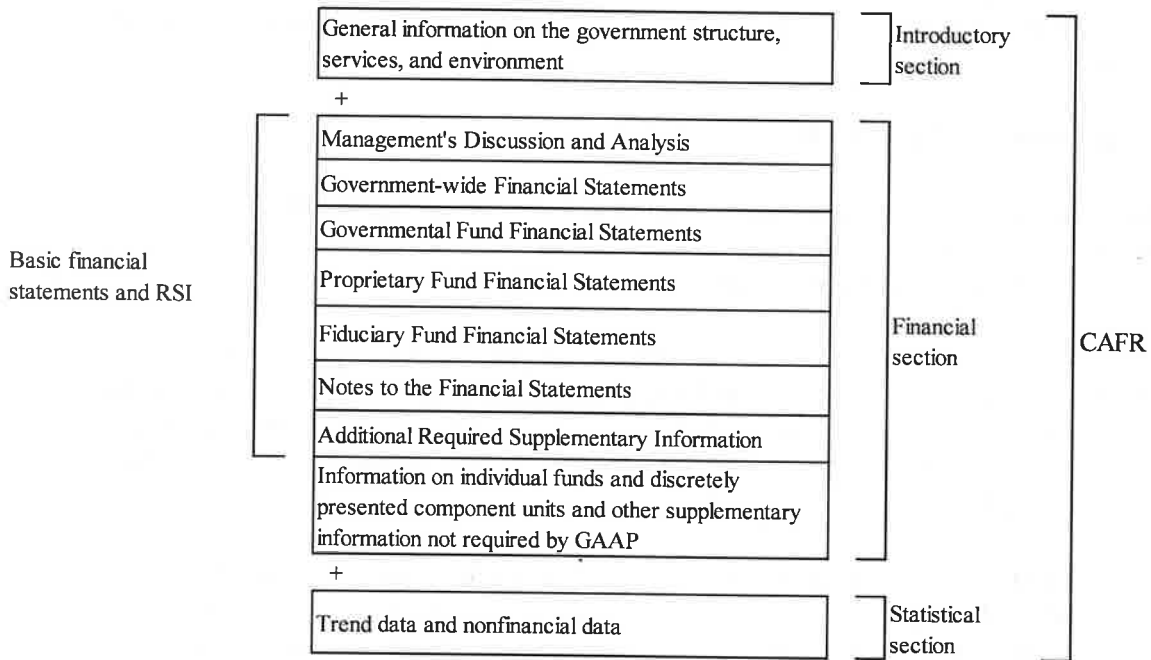
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<sup>3</sup> GAAP represents the conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements; Stephen J. Gauthier, *Governmental Accounting, Auditing, and Financial Reporting, Using the GASB 34 Model*, GFOA, p. 630. Note: the “GFOA” is the Government Finance Officers Association, an association of public finance professionals founded in 1906 as the Municipal Finance Officers Association. The GFOA has played a major role in the development of GAAP for state and local government since its inception and has sponsored the Certificate of Achievement for Excellence in Financial Reporting Program since 1946; *Ibid*, p. 631.

<sup>4</sup> The introductory section provides general information on the government’s structure and personal as well as information useful in assessing the government’s financial condition; the financial section contains basic financial statements, including the accompanying notes, and RSI (required supplementary information, including management’s discussion and analysis), as well as the independent auditor’s report. In addition, the financial section provides information on each individual fund and component unit for which data are not provided separately within the basic financial statements; and the statistical section provides a broad range of trend data covering key financial indicators from the past 10 years (for instance, general government revenues and expenditures, property tax collections, debt burden). It also contains demographic and miscellaneous data useful in assessing a government’s financial condition: *ibid*, p. 243; 254.

<sup>5</sup> *Ibid*, p. 140.

**The comprehensive annual financial report and its relationship to the basic financial statements and RSI**



Source: GFOA: Governmental Accounting, Auditing, and Financial Report, using the GASB 34 model, Stephen Gauthier, 2001, p. 141.

**Significance of GASB Statement 34**

In June 1999, the Governmental Accounting Standards Board<sup>6</sup> (GASB) issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. That pronouncement established a whole new financial reporting framework, or governmental financial reporting model, for state and local governments. The result is the biggest change in the history of public-sector accounting and financial reporting<sup>7</sup>.

Statement No. 34 requires governments to present information in the first two financial statement exhibits using full accrual accounting encompassing all funds, as in the private sector. These first two exhibits are called the government-wide Statement of Assets and the Statement of Activities. Most of the information presented in the governmental-wide financial statements must be calculated the same way by each government, so they provide more comparable data than were available before Statement No. 34. In addition, by requiring government-wide financial statements as opposed to specific fund statements, which can vary significantly in type and number from government to government, financial data is more comprehensive and comparable. GASB required governments to implement the financial reporting changes between the fiscal years beginning 2001 and 2003, depending on the size of the government based on

<sup>6</sup> The GASB (Governmental Accounting Standards Board) is the ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984 to replace the NCGA (National Council on Governmental Accounting); Ibid, p. 639.

<sup>7</sup> Stephen J. Gauthier, "An Elected Official's Guide to the New Governmental Financial Reporting Model", 2000, p. 1.

annual revenues<sup>8</sup>. The chart below describes the key improvements resulting from the GASB 34 reporting model:

Key Improvements Resulting from the New (GASB 34) Governmental Financial Reporting Model			
Improvements Designed to Enhance Operational Accountability		Improvements Designed to Enhance Fiscal Accountability	
Previous Model	GASB 34 Model	Previous Model	GASB 34 Model
All reporting based on funds and fund types	Introduction of government-wide financial statements	Information in basic financial statements aggregated by fund type	Information in basic financial statements presented separately for major individual and governmental and enterprise funds
Information on governmental activities limited to near-term inflows and outflows of spendable resources	Government-wide financial statements provide additional long-term focus for governmental activities	Budgetary comparisons associated with the basic financial statements aggregated by fund type	Budgetary comparisons associated with the basic financial statements presented for the general fund and individual major special revenue funds
Cost-data available only for business-type activities	Cost data provided for both governmental and business-type activities	Budgetary comparisons report only final amended budget	Budgetary comparisons report both original and final amended budget
No narrative required	Narrative overview and analysis required in the form of Management's Discussion and Analysis		

Source: GFOA: An Elected Official's Guide to the New Governmental Financial Reporting Model, 2000, p. 17.

### Basic Financial Statements in the ACFR

The basic financial statements are found in the financial section of the ACFR, as depicted in the chart on page 6 of this report. Basic financial statements have three components<sup>9</sup>:

- *Government-wide financial statements.* GAAP require that state and local governments provide a governmental-wide statement of net assets and a governmental-wide statement of activities that are to include all of the primary government's governmental activities, business-type activities, and (non-fiduciary) components units.
  - The statement of net position, as depicted in the City's ACFR, shows the relationship between the government's assets and liabilities. An asset is anything that has long-term value, such as cash, property and equipment. A liability is any outside claim on an asset. A key indicator of a government's financial condition is net position, or the difference between assets and liabilities. The statement of net position is akin to the balance sheet for a nonprofit or for-profit company<sup>10</sup>.
  - The statement of activities is similar to the income statement for a nonprofit or for-profit company. It identifies the government's revenues and expenses. However, unlike nonprofits and corporations, where it is expected that revenues will exceed

<sup>8</sup> The Civic Federation, "Indicators of Financial Condition: A Comparison of the City of Chicago to 12 Other U.S. Cities, November 8, 2013; pp. 11-12.

<sup>9</sup> Gauthier, Governmental Accounting, Auditing, and Financial Reporting, Using the GASB 34 Model: GFOA; Ibid, p. 138.

<sup>10</sup> Governing: Guide to Financial Literacy: Connecting Money, Policy and Priorities, 2014; p. 30.



expenses, expenses for governmental activities often exceed revenues. This is because general government services that do not charge a fee will incur more expenses than revenues.

- *Fund financial statements*<sup>11</sup>. GAAP require that the government-wide financial statements be accompanied by separate sets of financial statements for governmental funds, proprietary funds and fiduciary funds.
  - For fund financial statements, the balance sheet covers assets and liabilities within the fund. At the fund level, the difference between assets and liabilities is known as fund balance. Fund balance in the general fund is one of the most closely watched indicators of financial condition.
  - In addition for fund financial statements, the statement of revenues, expenditures and changes in fund balance, identifies the revenues and expenditures within the fund, and how the difference between revenues and expenditures affected fund balance.
  - Also for fund financial statements, there are reconciliations in the ACFR, which is akin to the cash flow statement for nonprofit or corporation. They show how changes in revenues and expenditures within the fund added or subtracted to the government-wide net position<sup>12</sup>.
- *Notes to the financial statements*. The data displayed on the face of the government-wide and fund financial statements must be accompanied by various disclosures to ensure that a complete picture is presented in the financial statements. This additional disclosure is presented in the form of a single set of notes placed immediately following the government-wide and fund financial statements.

The chart below illustrates the location of individual fund data with the basic financial statements and the combining and individual fund subsection of the financial section of the ACFR<sup>13</sup>:

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<sup>11</sup> A “fund” is a fiscal and accounting entity with a self-balancing set accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations; Ibid, p. 629

<sup>12</sup> Ibid.

<sup>13</sup> The governmental and proprietary funds represent the “primary government”, which is the City of Detroit. A “component unit” is a legally separate organization that a primary government must include as part of its financial reporting entity for fair presentation in conformity with GAAP, based on the elected officials appointment of the board of the unit; the unit’s fiscal dependence on the primary government; and if the potential exclusion of the unit would result in misleading financial reporting. A “blended component unit” is a unit so dependent on the primary government that it becomes a part of the primary government’s financial statements. A “discretely presented component unit” is a unit that operates with a greater or lesser degree of autonomy from the primary government; Ibid, pp 52-60.

**Location of individual fund data within the ACFR**

Governmental funds	Proprietary funds	Fiduciary funds	Component units
General fund	Major enterprise funds	Private-purpose funds	Major component units
Other major-governmental funds	Nonmajor enterprise funds	Pension (and other employee benefit) trust funds	
		Investment trust funds	Nonmajor component unit
Nonmajor governmental funds	Internal service funds	Agency funds	

Key:



Basic financial statements



Combining and individual fund subsection of the financial section of the CAFR

Source: GFOA: Governmental Accounting, Auditing, and Financial Report, using the GASB 34 model, Stephen Gauthier, 2001, p. 258.

**Basis of Accounting Reported in the ACFR**

The ACFR includes financial statements for the City’s government-wide activities and enterprise funds measuring the City’s flow of economic resources using the full accrual basis of accounting. These statements measure the City’s total economic resources: all revenues earned, not just those that are available (as is the case with governmental funds); and all operational expenses, including expenses resulting in cash outlay and non-cash transactions, such as depreciation expense.

The ACFR includes governmental funds, the general fund being the primary one, measuring the basic one-year view of the money that flows into and out of those funds and the balances left at year end that are available for future spending. The statements for these funds are prepared using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

Of course, Council’s primary focus is the general fund since this fund accounts for most of the City’s basic services such as public safety, health, recreation and culture, sanitation and administration (including executive and legislative). The general fund is supported by taxes, fees and federal and state dollars. Of course, Council’s budget process focuses primarily on the general fund. It is important to note that the City’s ACFR usually provides an excellent overview of the City’s financial statements. In general, the Management’s Discussion and Analysis (M, D&A) that is contained in the City’s ACFR, provides an excellent analysis of the City’s financial status and condition. The table below shows the measurement focus and basis of accounting by governmental-wide statement and fund type:

**Measurement focus and basis of accounting by government-wide statement and fund type**

Government-wide category		Measurement focus		Basis of accounting	
		Economic resources	Current financial resources	Accrual	Modified accrual
Governmental Activities	Statement of Net Position/ Statement of Activities	X		X	
Business-type Activities	Same	X		X	
Component Units	Same	X		X	

Fund category		Measurement focus		Basis of accounting	
		Economic resources	Current financial resources	Accrual	Modified accrual
Governmental funds	General fund		X		X
	Special revenue fund		X		X
	Debt service fund		X		X
	Capital projects fund		X		X
	Permanent fund		X		X
Proprietary funds	Enterprise fund	X		X	
	Internal service fund	X		X	
Fiduciary funds	Pension (and other employee benefit) trust fund	X		X	
	Investment trust fund	X		X	
	Private-purpose trust fund	X		X	
	Agency fund		Not applicable	X	

Source: GFOA: Governmental Accounting, Auditing, and Financial Report, using the GASB 34 model, Stephen Gauthier, 2001, p. 31.

The following chart illustrates key differences of what is reported or not reported in governmental-wide statements and governmental fund financial statements based on accounting treatment:

Key Differences Between the Governmental Fund Financial Statements and the Government-Wide Financial Statements		
Item	Treatment in Governmental Fund Statements	Treatment in Government-Wide Financial Statements
Financial Assets	Reported	Reported
Capital Assets	Not Reported	Reported
Liabilities That Are Due and Payable	Reported	Reported
Liabilities That Are <i>Not</i> Due and Payable	Not Reported	Reported
Capital Outlay	Reported	Not Reported
Depreciation	Not Reported	Reported
Receipt of Debt Proceeds	Reported	Not Reported
Debt Service Principal Payments	Reported	Not Reported
Premiums, and Discounts	Recognized as Incurred	Deferred and Amortized
Revenue Recognition	When Measurable and Available	When Earned (Even if Not Available)
Internal Service Funds	Not Reported as Governmental Funds	Normally Included as Part of Governmental Activities

Source: GFOA: An Elected Official's Guide to the New Governmental Financial Reporting Model, 2000, p. 52.

### The Financial Statement (ACFR) Audit

The Governmental Accounting Standards Board (GASB) identifies the users of general purpose external financial reporting (or the ACFR) to “include legislators and their staff, municipal bond insurers, buy and sell-side analysts, rating agencies, bond holders, citizen and taxpayer groups, community organizations, research institutes, professors and students, among others, and the general public”.

The GASB further identifies three groups of primary users of ACFRs to include those to whom government is primarily accountable (the citizenry), those who directly represent the citizens (legislative and oversight bodies), and those who lend or who participate in the lending process (investors and creditors).

Users of ACFRs have long insisted that an independent auditor vouch for the reliability of financial reports. The financial statement audit is the process used by the independent auditor to provide the necessary assurance that the financial statements are fairly presented in conformity

with GAAP<sup>14</sup>. The independent auditor does not opine on the financial condition of the governmental entity. It should be noted, too, that financial statement audits are not designed to detect all instances of fraud, abuse, and program non-compliance (i.e., smaller items may be expected to fly under the radar)<sup>15</sup>.

A common misconception by those who are not familiar with the roles and responsibilities of management, the City Council, Mayor, and the independent auditor is that the auditor is responsible for the information presented in the general purpose external financial report. In fact, while the primary responsibility rests with management, the ultimate responsibility rests with the Mayor and Chief Financial Officer.

The reasonable basis for management's assurance that the information presented in general purpose external financial reporting is complete and reliable can be provided only by a comprehensive framework of internal control. An audit committee, preferably comprising members of the governing board, can provide necessary oversight<sup>16</sup>. The independent auditors are responsible for the opinion they express concerning the fair presentation of the financial statements<sup>17</sup>.

The independent auditor along with the "opinion" issues a separate report on their consideration of the City's internal control over financial reporting and their tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of the auditors' testing of internal control over financial reporting and compliance and the results of that testing. This report is useful to readers in understanding the City's internal controls or lack thereof, and other material issues found by the auditors.

## **Interpreting/Analyzing the Financial Information Contained in the ACFR**

### Public sector versus private sector

The primary goal of a private-sector business is economic-to make a profit. While local governments also have economic goals, their principal objective is social rather than economic-to provide services to the citizens. Therefore, the approach taken to interpreting financial statements in the public sector must necessarily differ in important respects from the approach taken in the private sector<sup>18</sup>.

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<sup>14</sup> Michael Genito, "Back to Basics: An Overview of Governmental Accounting and Financial Reporting", Government Finance Review, February 2013, p. 50. It should be noted that a governmental entity desires to receive an "unqualified" or "unmodified" opinion from the independent auditor of the financial statements, which represents a "clean" opinion that the statements are fairly presented in all material aspects.

<sup>15</sup> Stephen Gauthier, "Better Understanding the Financial Statement Audit", Government Finance Review, June 2009, p. 46.

<sup>16</sup> City Council's "Budget, Finance and Audit Committee" serves as an audit committee.

<sup>17</sup> Michael Genito, "Back to Basics..."; Ibid, p. 51.

<sup>18</sup> Stephen Gauthier, "Interpreting Local Government Financial Statements", Government Finance Review, June 2007, p. 9.

Focus points for analysis of the ACFR

It is common in the private sector to speak of a “bottom line” for evaluating financial performance (i.e., *net income*). Local government financial statements offer no single measure suitable for this purpose. Instead, users of local government financial statements must assess a local government’s financial health from three different perspectives: near-term financing, financial position, and economic condition. The following chart summarizes these three perspectives:

<b>Perspectives for Analyzing Local Government Financial Statements</b>	
<b>Perspectives</b>	<b>Significance</b>
Near-term financing situation	Will the government be able to pay its bills (both expected and unexpected) on time?
Financial position	Is the government’s financial health improving or deteriorating?
Economic condition	Is it likely that today’s financial position will improve or deteriorate?

Source: “Interpreting Local Government Financial Statements”, Stephen Gauthier, Government Finance Review, GFOA, June 2007, p. 10

- **Near-term financing.** Is the government able to meet its short-term financial obligations in a timely manner? Are its operating inflows adequate to cover its operating outflows? Is the government financially prepared for contingencies (e.g. budgetary shortfalls and natural catastrophes)?
1. The governmental fund financial statements (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund) are used to assess a local government’s near-term financing situation since their measurement focus is primarily near-term.
  2. The difference between a governmental fund’s assets and liabilities is described as *fund balance*. Governmental funds report the following components of fund balance:
    - Non-spendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact such as long-term receivables.
    - Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use of a specific purpose such as highway and street improvements and capital acquisitions.
    - Committed: Amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision-making authority. Commitments are made and can be rescinded only by a formal action of the government’s highest level of decision-making authority. Committed fund balances include risk management and “quality of life” program fund balances.
    - Assigned: Intent to spend resources on specific purposes expressed by the governing body such as debt service.
    - Unassigned: Amounts that do not fall into any other category above. This is the residual classification in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted,

committed, or assigned to those purposes. So, “unassigned fund balance” is the focus for what is available in the near-term.

3. It is important that the amount of unassigned fund balance in a government’s chief operating fund (i.e., *general fund*) be large enough to serve as a cushion against unanticipated budgetary shortfalls, disasters, and other contingencies, thereby mitigating risk and helping to stabilize tax rates<sup>19</sup>.
  4. In the statement of revenues, expenditures and changes in fund balances (i.e., *income statement*) of government funds, it is important to consider as a near-term concern the level that revenues exceed expenditures, or not; and what the pattern has been over a period of years per this line item.
  5. For propriety fund statements (e.g., water and sewer, transportation, airport statements), which are business type funds, the near-term concerns are as follows:
    - a. For the statement of net position (i.e., *balance sheet*), the ratio of current assets versus current liabilities, or *working capital ratio*, is an indicator of how well current resources are covering current obligations. It is good to compare this ratio with the ratios of peers.
    - b. For the statement of revenues, expenses and changes in fund net position (i.e., *income statement*), the level of “cost recovery”, or the level that revenues cover expenditures, is an important near-term indicator to determine if fees should be increased to more fully or totally cover the cost of service delivery<sup>20</sup>.
- **Financial position.** It would be shortsighted, of course, to focus exclusively on the near term. An equally important concern is a government’s overall *financial position* as represented by the totality of its assets and liabilities, as well as the difference between them (i.e., net position). Financial position is an essential point of reference for determining whether a government’s overall financial situation is improving or deteriorating.
    1. The governmental-wide financial statements are used to best assess local government’s financial condition since their measurement focus is primarily long term.
    2. For government-wide statement of net position (i.e., *balance sheet*), the principal measure of financial condition is net position, or the difference between total assets and total liabilities. Care is needed to properly interpret the significance of one of its components, unrestricted net position. Therefore, the focus of analysis should be on the direction and magnitude of *change over time* and the underlying reasons for the

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<sup>19</sup> “How much unassigned fund balance is enough?” Although there is no single right answer to this question, it is possible, nonetheless, to offer some practical guidance. The Government Finance Officers Association (GFOA) has formally recommended that the *minimum* level of unassigned fund balance in the general fund be no less than five to 15 percent of regular general fund operating revenues, or one to two months of regular general fund operating expenditures, depending upon the point of reference. Other questions: “Is fund balance normally in excess of minimum levels? How rapidly has unassigned fund balance been replenished in the wake of events requiring its use?” Ibid, p. 10.

<sup>20</sup> Ibid, p. 11.

change. Is the rate of change troubling or reassuring? Is the reason for the potential or need for committing future taxing power valid (to more fully cover the cost of delivery or a deficit) or just an excuse to place the burden of paying for today's services on tomorrow's tax-payers?<sup>21</sup>

3. From the viewpoint of financial position, the single most important element in the government-wide statement of activities (i.e., *income statement*) is *changes in net position*. The amount reported as changes in net position measures the extent to which a government's financial position has ultimately improved or deteriorated as the result of events and transactions of the period<sup>22</sup>.
  4. Another important benefit of the government-wide statement of activities is that it provides an accrual-based measure of the cost of a government's various functions and programs. Such information is clearly of value for appreciating the impact of individual functions and programs on a government's overall financial position<sup>23</sup>.
- **Economic condition.** Needless to say, a local government's finances do not exist in a vacuum. Inevitably, a government's financial position will be effected by its circumstances (e.g., the vitality and diversification of the local economy, the breadth and depth of the government's tax base). Likewise, a government does not exist in a time warp. Past experience often is vital to predicting future developments (e.g., Have intergovernmental revenues been increasing or decreasing over time? Has the government's population been growing or shrinking?). Economic condition focuses on the likelihood that today's financial position will improve or deteriorate in the future<sup>24</sup>.
    1. Much of the information needed for assessing economic condition involves either nonfinancial data (e.g., population and unemployment) or financial data presented for multiple years (e.g., 10-year trends). Such data typically are located either in the statistical section of the ACFR or as part of the required supplementary information (RSI)<sup>25</sup>.

On September 15, 2015, LPD will be releasing a report entitled "Review of the 2014 Annual Comprehensive Financial Report (ACFR) for the City of Detroit" that will provide an analysis of the 2014 ACFR with the focus on the perspectives identified above.

In addition, to make the review of the City's ACFR more meaningful, LPD feels it is relevant to look at a comparison of the City's ACFR with other major cities in the U.S. and in Michigan over time in order to focus on major trends that are developing and on any early warning signs of fiscal stress for the Mayor and the City Council to pay close attention to. Please refer to our report entitled "Benchmark Comparison of the City of Detroit's 2014 Annual Comprehensive

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<sup>21</sup> Ibid, p. 12.

<sup>22</sup> Specifically, by comparing *changes in fund balances* (as reported in the governmental fund statement of activities) with changes in *net assets-governmental activities* (as reported in the government-wide statement of activities), the financial statement user can better appreciate the long-term economic impact of the near-term financing activities reported in the governmental funds. Ibid, p. 12.

<sup>23</sup> Ibid, p. 12.

<sup>24</sup> Ibid, p. 9.

<sup>25</sup> Ibid, p. 13.



Financial Report (ACFR) With Other Cities” that will be released on September 15, 2015 as well for a greater discussion on this issue.

### **Using the ACFR to Assist in Analyzing the City’s Fiscal Sustainability**

State and local governments will likely continue to face the stress and shortfalls caused by the Great Recession for an extended period. The U.S. General Accountability Office (GAO) projects increasing operating deficits in state and local government. Additional research performed in conjunction with the GAO suggests that the demographic changes in the country may increase costs of government expenditure, reduce the growth of individuals’ incomes and expenditures, and significantly reduce the growth of individual tax payments. This analysis points to continued pressure on all government budgets for decades<sup>26</sup>.

The economic challenges in the City of Detroit are more pronounced, given the high unemployment rate, high poverty levels, and the shrinking population, tax base and labor force the City is facing. There are some signs of economic improvement in the City, but they are relatively concentrated in certain pockets in the City (such as in mid-town and downtown Detroit and in certain neighborhoods dispersed throughout the City).

As a result, it is imperative moving forward that both the Mayor and the City Council focus on fiscal sustainability for the City of Detroit and collectively develop measures to maintain and grow revenues in the City while instituting cost-containment measures. One definition of sustainability is “meeting the needs of the present without compromising the ability of future generations to meet their own needs”<sup>27</sup>. More specifically, the City may define sustainability as “a government’s ability to manage its finances so it can meet its spending commitments, both now and in the future”, and whether “it ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation”<sup>28</sup>.

As an example, in 2014, the City Council of Shoreline, Washington adopted a 10-Year Financial Sustainability Plan to address the problem of revenues growing slower than the costs of providing services. The Shoreline staff developed financial models for both revenues and core-quality of life services (costs) and confirmed that costs for existing services could exceed revenues within the next 10 years. As a result, alternatives strategies were adopted by the City Council to shore up revenues and maintain expenditures<sup>29</sup>.

In another example, Yolo County, California developed a framework for implementing financial sustainability which include the following guiding principles: a) ensure continuing value of services; b) operate within available means and with minimal debt; c) take charge of the

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<sup>26</sup> Mark Pisano and Richard F. Callahan, “Developing Effective Mechanisms that Promote Fiscal Sustainability”, *Government Finance Review*, October 2013, p. 74.

<sup>27</sup> GFOA Best Practice “The Public Finance Officer’s Role in Supporting Fiscal Sustainability”. Attachment II represents a copy of this GFOA policy. This policy suggests there are three bases of sustainability: environment, social equity, and economic.

<sup>28</sup> Ibid.

<sup>29</sup> The link to Shoreline, Washington’s 10-Year Financial Sustainability Plan is <http://www.shorelinewa.gov/government/departments/administrative-services/ten-year-financial-sustainability-project>.

organization's financial destiny; d) build and preserve ability to produce; and e) plan to stay in business for the long term<sup>30</sup>. Attachment III represents a copy of the Yolo County's framework.

**Fortunately, the City of Detroit already has the tools to develop a very robust fiscal sustainability plan, for the following reasons:**

1. The City has prepared ACFRs over the years that have contained frank and honest information regarding its fiscal challenges, including liquidity crises, appropriation deficits, high levels of borrowing for cash flow purposes, historical information on City's deficits and negative net assets, financial emergencies the City has faced in the past that prompted State intervention and the appointment of an emergency manager, and the impact of the bankruptcy proceedings on the City's finances. There is good data in these ACFRs to develop a very comprehensive trend analysis to develop an early warning fiscal stress system<sup>31</sup>.
2. The City has the Plan of Adjustment (POA) coming out of bankruptcy that contains a 10-year plan to significantly improve the finances of the City through the elimination of debt and the establishment of budget reserves, and make major investments to improve City services; and contains a 40-year plan that maintains the financial viability of the City's finances over the long haul, if the assumptions associated with these plans materialize<sup>32</sup>. The POA provides a "fresh start" for the City of Detroit financially. Therefore, the POA would seem to serve as an excellent foundation and blue print for developing a fiscal sustainability model for the City of Detroit. However, there are concerns about how successful will future revenues in the POA grow enough to maintain current service levels and provide enough resources to make the major investments to improve services over the next ten years. Fortunately, the City currently has almost 6% in budget reserves (5% is the minimum according to PA 181 of 2014), and there is a 1% contingency built in the POA to help minimize fluctuations in the revenue stream.
3. The Mayor and the City Council are committed to abiding by the POA.
4. The Financial Review Commission (FRC), created per PA 181 of 2014, provides wide-ranging oversight of City finances<sup>33</sup>. Most likely, the FRC would provide input to a City's financial sustainability plan.

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<sup>30</sup> Heather Johnston, "Guiding Principles for Financial Resiliency", Government Finance Review, April 2015, p. 19.

<sup>31</sup> Again, please refer LPD's report entitled "Benchmark Comparison of the City of Detroit's 2014 Annual Comprehensive Financial Report (ACFR) With Other Cities" as a start to look at major financial indicators of the City as compared to other cities.

<sup>32</sup> On November 7, 2014, the Honorable Judge Steven W. Rhodes of the U.S. Bankruptcy Court of Eastern District of Michigan Southern Division confirmed the Eight Amended Plan for the Adjustment of Debts of the City of Detroit, a/k/a the "Plan of Adjustment" or "POA". Through this plan, approximately \$7 billion of the City's outstanding \$18 billion in liabilities were eliminated; and through financial reforms contained in the plan, the City is able to invest approximately \$1.7 billion in several reinvestment and restructuring initiatives ("RRIs") over ten years to help improve the City government's infrastructure and the provision of services. These RRIs are designed to "substantially improve and provide adequate levels of services, as well as enhance revenue and reduce costs". Source on the impact of the plan: Supplemental Opinion Regarding Plan Confirmation, Approving Settlements, and Approving Exit Financing, filed by Judge Rhodes on December 31, 2014.

<sup>33</sup> Act 181 of 2014, the "Michigan Financial Review Commission Act" created the Financial Review Commission (FRC). Key powers of the FRC include a) approve/disapprove the City's four-year financial plan; b) review, modify

Using the tools above, LPD makes the following recommendations for the Mayor and the City Council to consider while developing a joint fiscal sustainability model/plan:

1. Adopt a fiscal sustainability policy using the GFOA Best Practice report on fiscal sustainability (Attachment II) and the financial sustainability framework developed by Yolo County, California (Attachment III) as guidelines. Note: Yolo County staff used the GFOA's long-term financial planning model (available at no charge on the GFOA's website at [www.gfoa.org](http://www.gfoa.org)) in the development of its financial sustainability framework.
2. Using the latest ACFR, the POA's 10-year and 40-year plans should be recalibrated annually to reflect the most recent budget surplus or deficit information that is reported in the latest ACFR.
3. Using revenue and expenditure modeling, similar to one used in Shoreline, Washington, assumptions and strategies should be developed in the event revenue levels do not materialize in accordance to the POA to meet anticipated expenditures.
4. According to the POA, a net investment of \$1.4 billion will be made in reinvestment and restructuring initiatives (RRIs) will be made over the next ten years to improve the City's infrastructure and service delivery. The initial \$205 million of these investments is funded through exit financing after the City emerged from bankruptcy on December 10, 2014. The remaining RRI's is funded through new revenues and savings built into the POA. The POA should be recalibrated annually to reflect the status of RRIs and available resources to finance the RRIs<sup>34</sup>.

A robust fiscal sustainability model/plan would enable the City of Detroit's elected officials to develop strategies, both revenue growth and expenditure containment strategies, to address any foreseeable budget gaps.

### **The Popular Financial Report: a Condensed version of the ACFR**

The ACFR, as its name implies, is intended to have a *comprehensive* scope. Furthermore, ACFRs normally present information at a high level of detail (for instance, information on each

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and approve/disapprove budget amendments; c) approve/disapprove the issuance of City debt; d) approve/disapprove all contracts for goods and services exceeding \$750,000 or with a term of more than two years, and any amendments to or new Collective Bargaining Agreements. The FRC will remain in place for at least 13 years.

<sup>34</sup> The level of revenue generation in the City of Detroit over the next 10 years will be extremely important, and must be monitored very closely. Revenue collection efforts should be a high priority, and new revenue sources should be explored continuously. In addition, "outside the box" initiatives may need to be explored, such as the complete or significant elimination of the property tax to expedite economic development and retain existing and attract new Detroit citizens. Of course, strategies would have to be in place to generate alternative revenue and/or contain costs to replace the loss of any property revenue. Currently, the City generates approximately \$115 million in property tax revenue for the year. Given the current vulnerabilities in the City's real estate market, however, this level of property tax revenue could continue to drop.

individual fund). Such scope and detail are necessary to meet the needs of decision-makers and to demonstrate compliance with legal requirements to oversight bodies and other interested parties. Unfortunately, this same scope and detail can confuse or discourage those unfamiliar with public-sector accounting and financial reporting.

While the GFOA strongly supports both GAAP financial reporting and the ACFR, the association also acknowledges a need to *supplement* (rather than replace) the traditional ACFR with simpler, “popular” reports designed to assist those who need or desire a less detailed overview of a government’s financial activities<sup>35</sup>.

Wayne County, Michigan produces a popular report<sup>36</sup>. Wayne County’s latest popular report is for fiscal year 2012-13 (or June 30, 2013). The county’s 2013 popular report is eight pages; in contrast, the county’s 2013 ACFR was 268 pages.

Given the enormity and complexity of the City of Detroit’s ACFRs over the years (the City’s 2014 ACFR is 250 pages), LPD strongly recommends that the Duggan Administration produce a popular financial report for the City of Detroit, using the guideline developed by the GFOA (see Attachment IV) for readers who do not have a financial background.

## **Conclusion**

In June 2015, your Honorable Body received the ACFR for the Fiscal Year Ended June 30, 2014 (2014 ACFR). The Budget, Finance and Audit Committee is in the process of reviewing and studying this extremely important document.

Given the size (250 pages) and complexity of the 2014 ACFR, LPD provided this report to serve as a primer to the ACFR to help Council better understand and analyze the 2014 ACFR. There is a wealth of financial information in the 2014 ACFR, particularly since it provides a financial picture of the City of Detroit as it was preparing to exit bankruptcy.

The 2014 ACFR, along with past City of Detroit ACFRs, coupled with the comprehensive financial information contained in the POA, should help the Mayor and City Council develop robust trend analyses regarding the City’s finances and financial condition, and a long-range fiscal sustainability model/process, to help build resiliency for our great city when financial storms arise.

Please let us know if we could be of anymore assistance.

Attachments

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<sup>35</sup> Gauthier, *Governmental Accounting, Auditing, and Financial Reporting, Using the GASB 34 Model*: GFOA; Ibid, p. 275.

<sup>36</sup> The link to the Wayne County’s popular reports is as follows: <http://www.waynecounty.com/transparency.htm>.

Attachment I

Presented by: Alan Nast, CPA  
Gainesville, Florida

## Understanding the CAFR

Presented for: FGFOA School of Governmental Finance  
October 31, 2011



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INGRAM  
CPAs and Advisors

[cricpa.com | blog.cricpa.com](http://cricpa.com/blog/cricpa.com)



## What is a CAFR??

An annual financial report that is more  
“comprehensive” than financial statements  
required by GAAP.

CAFR = Comprehensive Annual Financial Report

## Our Agenda

### Basic Overview of CAFR

1. Intro Section
  2. Financial Section
    - \* Auditors Report
    - \* MD&A
    - \* Funds and Fund Types
    - \* Basic FS
    - \* RSI
    - \* SI
  3. Statistical Section
- A Real-life Example



## Is a CAFR Required??

A CAFR is not required by GAAP.

But, a CAFR is required .....



# When is a CAFR Required??

A CAFR is required for participation in GFOA's Certificate of Achievement for Excellence in Financial Reporting Program.

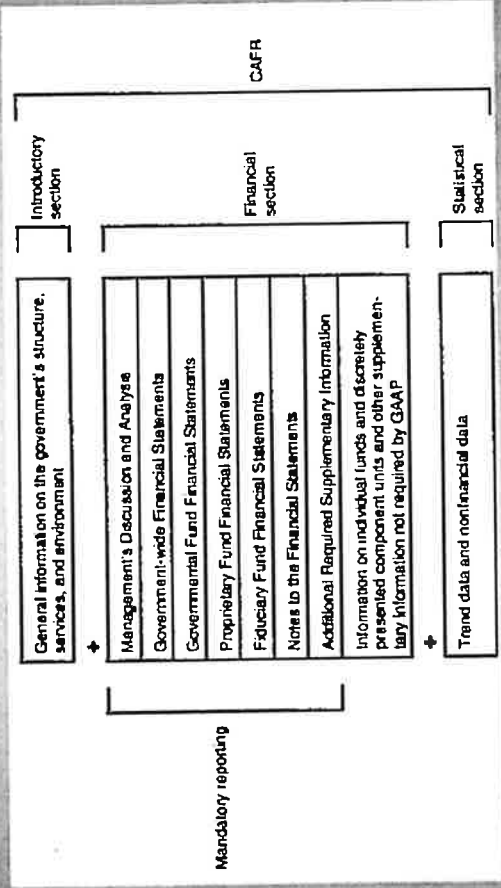


# The Comprehensive Annual Financial Report

- Governments are "encouraged" to prepare a CAFR
- **Introductory Section** – provides general information on the government's structure and the services it provides.
- **Financial Section** – contains the basic FS, RSI (including the MD&A) and information on each individual fund and CU for which data are not provided separately in the basic FS.
- **Statistical Section** – provides financial and demographic information about economic condition, including trend data.



## The CAFR



# INTRODUCTORY SECTION



## Introductory Section

- Certificate of Achievement for Excellence in Financial Reporting
- List of Principal Officials
- Organizational Chart
- Letter of Transmittal



## Letter of Transmittal

- Should contain four sections:
  - 1. Formal transmittal of the CAFR
  - 2. Profile of the government
  - 3. Information useful in assessing the government's economic condition
  - 4. Awards and acknowledgements



## Formal Transmittal of the CAFR

- Formally transmit to users, and address:
  - Legal requirements
  - Management's assumption of responsibility
  - Internal Control
  - Independent audit
  - Reference to MD&A



## Profile of the Government

- Basic information about the government's structure, services, geography, population and history
- Component units should be explained
- The budget:
  - Budget process
  - Governmental funds
  - Legal level of budgetary control





## Information Useful in Assessing Economic Condition

- Local economy
- Long-term financial planning
- Relevant financial policies
- Major initiatives



## Awards and Acknowledgements

- Recognize those who have made significant contributions to the CAFR
- Mention participation in Certificate Program or Award for Distinguished Budget Presentation
- Acknowledge governing body



## FINANCIAL SECTION



## Contents of Financial Section

1. Independent Auditor's Report on FS
2. MD & A
3. Basic Financial Statements
4. RSI (other than MD & A)
5. Combining & Individual Fund Presentations

## Independent Auditor's Report

- **UNQUALIFIED**
- **QUALIFIED**
- **ADVERSE**
- **DISCLAIMER OF OPINION**



## MD & A

- Brief, objective, easily readable analysis of government's financial activities
- Both positive and negative aspects should be included
- Should be based on currently-known facts, decisions, conditions as of date of auditor's report



## MD & A – Required Contents

- Discussion of Basic FS
- Condensed Comparative Data
- Overall Analysis of Financial Position and Results of Operations
- Fund Analysis
- Budget Variances in General Fund
- Capital Asset and LTD activity
- Infrastructure
- Other Potentially Significant Matters



## BASIC FINANCIAL STATEMENTS



## Funds and Fund Types

### GOVERNMENTAL FUNDS

1. General Funds
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Projects Funds
5. Permanent Funds



## FUNDS AND FUND TYPES

### PROPRIETARY FUNDS

6. Enterprise Funds
7. Internal Service Funds



## FUNDS AND FUND TYPES

### FIDUCIARY FUNDS

8. Pension (and OPEB) Trust Funds
9. Investment Trust Funds
10. Private-purpose Trust Funds
11. Agency Funds



## Governmental Fund Type Definitions Per GASB 54



"The GF should be used to account for and report all financial resources not accounted for and reported in another fund."

- **Basically no change.** Dropped the word "required."



"Special Revenue Funds are used to account for and report the **proceeds of specific revenue sources** that are restricted or committed to expenditure for specified purposes other than debt service or capital projects."



The term "proceeds of specific revenue sources" establishes that **specific restricted or committed revenues should be the foundation** for a special revenue fund.



Once a Special Revenue Fund has been properly established (i.e., based on a specific revenue source), a government can **transfer additional resources intended for that same purpose** into the fund.



**Other resources** (i.e., investment earnings and transfers) also **may be reported in the fund** if those resources are restricted, committed or assigned to the specific purpose of the fund.



However, the use of a special revenue fund would be justified only as long as the government expected the **core revenue source** to “comprise a **substantial portion** of the inflows reported in the fund.”



### Special Revenue Fund Use

**Are governments required to use SRF to report restricted or committed revenue sources??**

**NO.** SRF are not required (except to report the GF of a blended component unit.)



### Special Revenue Fund Use

**Can assigned revenues or resources be reported in a special revenue fund??**

**Yes.** However, the fund is required to include substantial restricted or committed revenues as its foundation.



“Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to **expenditure for principal and interest payments.**”

- **No substantive change.**



## Debt Service Fund Use

**Is a DSF required to be used for all debt service activity??**

**NO.** A DSF is required when it is legally mandated or to account for resources that are being accumulated for principal & interest maturing in future years.



“Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of **capital facilities and other capital assets.**”

- Clarifies that CPF can be used to account for the acquisition or construction of “**other capital assets.**”



## Capital Projects Fund Use

**Can a govt purchase capital items which fall below the capitalization threshold from a CPF??**

**YES.** All expenditures that are “capital in nature” are OK.



“Permanent Funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs.”

- No substantive change.



## Basic Financial Statements

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

1. Statement of Net Assets
  2. Statement of Activities
- ### GOVERNMENTAL FUND FINANCIAL STATEMENTS
3. Balance Sheet
  4. Statement of Revenues, Expenditures and Changes in Fund Balances



## Basic Financial Statements

### PROPRIETARY FUND FINANCIAL STATEMENTS

5. Statement of Net Assets
6. Statement of Revenues, Expenses and Changes in Fund Net Assets
7. Statement of Cash Flows

### FIDUCIARY FUND FINANCIAL STATEMENTS

8. Statement of Fiduciary Net Assets
9. Statement of Changes in Fiduciary Net Assets



## Required Supplementary Information

1. Management’s Discussion and Analysis
2. Budgetary Comparison Exhibits (May be presented in Basic Statements)
3. Schedule of Funding Progress
4. Schedule of Employer Contributions



## Supplemental Information

1. Combining Financial Statements
2. Individual Fund Budgetary Schedules
3. SEFA
4. Etc.



## Q&A

Which financial statement displays your government's financial status at year end?

- a. Statement of Activities
- b. Statement of Net Assets**
- c. Statement of Revenues, Expenditures & Changes in Fund Balances



## Q&A

Which financial statement reports whether your government got better or worse off financially during the year?

- a. Balance Sheet
- b. Statement of Net Assets
- c. Statement of Activities**



## Q&A

If you wanted to evaluate the General Fund's reserves at year end, you should refer to which financial statement?

- a. Balance Sheet**
- b. Statement of Net Assets
- c. Statement of Revenues, Expenditures & Changes in Fund Balances





## Q&A

If you wanted to know whether the General Fund "made money" during the year, you should refer to which financial statement?

- a. Statement of Net Assets
- b. Balance Sheet
- c. Statement of Revenues, Expenditures & Changes in Fund Balances



## Q&A

The cash flows of your Enterprise Fund are reported in which financial statement?

- a. Statement of Net Assets
- b. Statement of Cash Flows
- c. Statement of Revenues, Expenditures & Changes in Fund Balances



## A REAL-LIFE EXAMPLE



CITY OF PALATKA, FLORIDA  
COMPREHENSIVE ANNUAL FINANCIAL  
REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

PREPARED BY  
CLAUDE BONIFAZ, JR.  
CITY MANAGER  
MATTHEW D. METCALLOP  
FINANCE DIRECTOR



**Four sections:**  
 1. Intro  
 2. Financial  
 3. Statistical  
 4. Single Audit

City of Palatka, Florida  
 Comprehensive Annual Financial Report  
 For The Year Ended September 30, 2009  
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**RECOMMENDATIONS:**  
 Letter of Transmittal  
 OPRA Certificate of Achievement  
 Organizational Chart  
 List of Related and Applicable Offenses

**FINANCIAL STATEMENTS:**  
 INDEPENDENT AUDITORS' REPORT  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 BASIC FINANCIAL STATEMENTS:  
 Government-wide Financial Statements:  
 Statement of Net Assets  
 Statement of Activities  
 Governmental Fund Financial Statements:  
 Budgetary Sheet  
 Reconciliation of the Balance Sheet to the Statement of Net Assets  
 Statement of Financial Position  
 Statement of Revenue, Expenditures and Changes in Fund Balances  
 Statement of Changes in Fund Balances  
 Fund Balance by Component Fund Balance  
 Statement of Financial Position - Governmental Funds  
 Statement of Financial Position - Primary Fund  
 Statement of Financial Position - Governmental Funds  
 Statement of Financial Position - Primary Fund

**NOTES TO FINANCIAL STATEMENTS:**  
 Schedule of Expenditures of Federal Awards  
 Schedule of Expenditures of Federal Awards - Budget  
 Schedule of Expenditures of Federal Awards - Budget and Actual - Continuation of Governmental Fund  
 Schedule of Payroll Program - Pension Plans  
 Schedule of Contributions from Employer and Other Contributing Entities  
 Pension Plans  
 Schedule of Paying Programs and Employer Contributions - OPEB  
 Notes to Required Supplementary Information

MD&A

Elever basic financial statements

RSI

CRI CARE AND ADVISORS

**SUPPLEMENTAL INFORMATION**

City of Palatka, Florida  
 Comprehensive Annual Financial Report  
 For The Year Ended September 30, 2009  
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**SUPPLEMENTAL INFORMATION:**  
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 Changing Statement of Changes in Primary Net Assets - Pension Trust Funds

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 Table 2 - Changes in Net Assets  
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 Table 15 - Demographic Statistics  
 Table 16 - Operating Indicators by Fiscal Year  
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 Schedule of Expenditures of Federal Awards and State Financial Assistance  
 Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Program and State Program  
 Schedule of Findings and Disputed Costs

**GOVERNMENTAL ACTIVITIES & BUSINESS-TYPE ACTIVITIES**

**NOTE: ORDER OF LIQUIDITY**

**GAP ASSETS & LTD**

**CATEGORIES OF NET ASSETS**

City of Palatka, Florida  
 Statements of Net Assets  
 For the Year Ended September 30, 2009

ASSETS	Governmental Activities	Primary Governmental Activities	Business-Type Activities	Component Unit
Cash and Equivalents	158,000	1,903,857	2,061,857	48,875
Receivables	2,825	368,020	370,845	210,200
Due From Other Governments	21,940	12,810	34,750	-
Inventory	480,810	10,361,268	11,842,078	21,800
Due Within One Year	3,081,658	12,599,248	15,680,906	13,118,207
Due in More Than One Year	4,254,052	29,020,742	33,274,794	21,680
<b>TOTAL ASSETS</b>	<b>8,108,285</b>	<b>36,806,745</b>	<b>41,122,230</b>	<b>36,500</b>
<b>LIABILITIES</b>				
Accounts Payable and Accrued	11,201,007	20,304,175	31,505,182	1,971,818
Liabilities	1,322,507	-	1,322,507	-
Deferred Outflows of Resources	276,420	-	276,420	-
Due Within One Year	42,216	56,833	99,049	65
Due in More Than One Year	234,204	56,833	291,037	-
Noncurrent Liabilities	118,453	118,453	236,886	118,453
Due Within One Year	1,303,782	7,451,240	8,755,022	3,315,927
Due in More Than One Year	3,147,820	31,036,400	35,619,000	3,815,400
<b>TOTAL NET ASSETS</b>	<b>3,147,820</b>	<b>16,502,570</b>	<b>19,867,148</b>	<b>3,147,820</b>

**NET PROGRAM COST FORMAT**

City of Palatka, Florida  
 Statement of Activities  
 For the Year Ended September 30, 2009

PROGRAM	Expenses	Charges for Services	Operating Revenues	Capital Contributions	Governmental Revenues	Net (Expense)/Revenue and Changes in Net Assets	Component Unit
<b>GOVERNMENTAL ACTIVITIES</b>							
General Government	10,020,275	58,889	1,160,564	1,281,072	6,868,721	13,309,521	-
Police	4,560,384	3,628,291	3,889,390	-	2,777,287	2,777,287	-
Fire	1,301,713	1,533,627	78,119	-	114,214	114,214	-
Public Works	608,843	78,119	-	4,543,480	3,162,286	3,162,286	-
Library	1,273,471	570,396	-	-	1,141,598	1,141,598	-
Other	1,872,459	640,985	-	3,267,470	8,937,458	8,937,458	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>19,536,746</b>	<b>11,229,897</b>	<b>5,118,063</b>	<b>8,891,552</b>	<b>13,889,346</b>	<b>13,889,346</b>	<b>13,889,346</b>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Barron	-	-	-	-	-	-	-
Golf Course	-	-	-	-	-	-	-
Airport	-	-	-	-	-	-	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL PRIMARY GOVERNMENT COMPONENT UNIT</b>	<b>19,536,746</b>	<b>11,229,897</b>	<b>5,118,063</b>	<b>8,891,552</b>	<b>13,889,346</b>	<b>13,889,346</b>	<b>13,889,346</b>
<b>Palatka Gas Authority</b>							
Property Taxes	-	-	-	-	3,838,363	3,838,363	-
State and Federal Grants	-	-	-	-	602,778	602,778	-
Franchise Fees	-	-	-	-	81,965	81,965	-
Utility Fees	-	-	-	-	117,843	117,843	-
Commuter Service Fee	-	-	-	-	54,760	54,760	-
Gas on Sale of Assets	-	-	-	-	22,174	22,174	-
Maintenance	-	-	-	-	11,820	11,820	-
Tributary	-	-	-	-	115,531	115,531	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,768,034</b>	<b>4,768,034</b>	<b>4,768,034</b>
<b>CHANGE IN NET ASSET</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,881,312</b>	<b>21,881,312</b>	<b>21,881,312</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>3,147,820</b>	<b>13,415,000</b>	<b>17,262,818</b>	<b>1,888,537</b>	<b>34,714,175</b>	<b>34,714,175</b>	<b>34,714,175</b>
<b>NET ASSETS - END OF YEAR</b>	<b>3,147,820</b>	<b>13,415,000</b>	<b>17,262,818</b>	<b>1,888,537</b>	<b>56,595,487</b>	<b>56,595,487</b>	<b>56,595,487</b>

See accompanying notes

See accompanying notes

See accompanying notes

**MAJOR FUNDS DISPLAYED SEPARATELY**

City of Palmdale, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2009

**MODIFIED ACCRUAL BASIS**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Investments	\$ 1,252,784	\$ 1,000,000	\$ 2,252,784
Accounts Receivable	27,276	4,707	31,983
Due from Other Funds	207,113	18,674	225,787
Due from Other Governments	300,817	19,274	320,091
Prepaid Expenses			
<b>TOTAL ASSETS</b>	<b>\$ 1,787,990</b>	<b>\$ 311,655</b>	<b>\$ 2,099,645</b>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 158,000	\$ 7,400	\$ 165,400
Due to Other Funds	2,620	34,618	37,238
Deferred Revenue		(2,000)	(2,000)
<b>TOTAL LIABILITIES</b>	<b>\$ 160,620</b>	<b>\$ 39,918</b>	<b>\$ 200,538</b>
<b>FUND BALANCES</b>			
Unassigned	1,629,370	273,737	1,903,107
Assigned	1,007,109	273,629	1,280,738
<b>TOTAL FUND BALANCES</b>	<b>\$ 1,636,479</b>	<b>\$ 547,366</b>	<b>\$ 2,183,845</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,803,099</b>	<b>\$ 587,284</b>	<b>\$ 2,390,383</b>

See accompanying notes



**RECONCILES MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL BASIS**

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 2,183,845

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets are reported in the statement of net assets but not reported in the governmental funds \$ 19,000,181
- Long-term liabilities are reported in the governmental funds but not reported in the governmental funds \$ 7,400,000
- Accounts receivable and other assets \$ 24,517,000
- Accrued liabilities \$ 2,620,000
- Deferred revenue \$ 2,000,000

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 1,118,679

See accompanying notes

City of Palmdale, Florida  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
September 30, 2009

**MAJOR FUNDS DISPLAYED SEPARATELY**

**MODIFIED ACCRUAL**

City of Palmdale, Florida  
Statement of Revenue, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 6,000,000	\$ 5,000,000	\$ 11,000,000
Investment Income	1,000,000	200,000	1,200,000
Charges for Services	178,000	112,000	290,000
Fees and Licenses	257,000	20,000	277,000
<b>TOTAL REVENUES</b>	<b>\$ 7,435,000</b>	<b>\$ 5,332,000</b>	<b>\$ 12,767,000</b>
<b>EXPENDITURES</b>			
Current Government	1,400,000		1,400,000
Public Safety	3,000,000		3,000,000
Transportation	100,000		100,000
Human Services	200,000		200,000
Capital and Equipment	200,000		200,000
Interest and Fiscal Charge	300,000		300,000
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,500,000</b>	<b>\$ 0</b>	<b>\$ 5,500,000</b>
<b>CHANGES IN FUND BALANCES</b>			
Investment Income	200,000		200,000
Transfer In	100,000		100,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 300,000</b>	<b>\$ 0</b>	<b>\$ 300,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 2,235,000</b>	<b>\$ 0</b>	<b>\$ 2,235,000</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>\$ 1,950,000</b>	<b>\$ 547,366</b>	<b>\$ 2,497,366</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 4,185,000</b>	<b>\$ 547,366</b>	<b>\$ 4,732,366</b>

See accompanying notes

**OTHER FINANCING SOURCES (USES)**

City of Palmdale, Florida  
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances to the Statement of Activities  
Governmental Funds  
For the Year Ended September 30, 2009

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 1,118,679

Amounts reported for governmental activities in the statement of net assets are different because:

- Governmental funds report capital assets as expenditures. However, the statement of net assets reflects the total of these assets is depreciated over their estimated useful lives \$ 1,000,000
- Current Year Depreciation Expense \$ 200,000
- In the statement of net assets, only the gain or loss on the disposal of capital assets is reported. However, in the governmental funds, the change in net assets differs from the change in fund balances by the net book value of the assets disposed \$ (45,780)
- Loss on disposal of capital assets \$ 440,000
- Payment of debt principal is an expenditure in the governmental funds, but the repayment does not affect the assets of governmental activities \$ 2,000,000
- Principal Payments \$ 21,000
- Some expenses reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds \$ 21,000
- Governmental Activities \$ 21,000
- Net Change \$ 1,118,679

The timing of revenue recognition sometimes differs between the governmental funds and governmental activities.

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 1,118,679

See accompanying notes



**RECONCILES MODIFIED ACCRUAL BASIS WITH FULL ACCRUAL BASIS**

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 2,183,845

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets are reported in the statement of net assets but not reported in the governmental funds \$ 19,000,181
- Long-term liabilities are reported in the governmental funds but not reported in the governmental funds \$ 7,400,000
- Accounts receivable and other assets \$ 24,517,000
- Accrued liabilities \$ 2,620,000
- Deferred revenue \$ 2,000,000

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 1,118,679



City of Palatka, Florida  
Statement of Fiduciary Net Assets  
Pension Trust Funds  
September 30, 2009

<b>ASSETS</b>	
Investments:	
Money Market and Other Cash Equivalents	1,040,488
Government Bonds and Notes	3,963,774
Corporate Bonds and Notes	10,274,893
Mutual Funds (17)	36,007
Market Pools (1)	10,274,893
Common Stocks/Equities	7,274,775
Total Investments	28,019,290
Accounts Receivable	105,714
<b>TOTAL ASSETS</b>	<b>28,125,004</b>
LIABILITIES	
UNASSIGNED	
Held in Trust for Pension Benefits	3,281,728

**DOES NOT ROLL INTO  
GOVERNMENT-WIDE STATEMENTS**

See accompanying notes  
-11-



## Notes to Financial Statements

- Note 1 – Summary of Significant Accounting Policies
- Note 2 – Deposits and Investments
- Note 3 – Interfund Balances and Transfers
- Note 4 – Capital Asset Activity
- Note 5 – Restricted Net Assets
- Note 6 – Long-term Obligations
- Note 7 – Pension Plans
- Note 8 – Other Postemployment Benefits
- Note 9 – Risk Management
- Note 10 – Commitments
- Note 11 – Contingencies



City of Palatka, Florida  
Statement of Changes in Fiduciary Net Assets  
Pension Trust Funds  
For the Year Ended September 30, 2009

<b>ADDITIONS</b>	
CONTRIBUTIONS:	
Employer	\$ 1,000,678
Member	373,515
Rolls on behalf through General Fund	196,250
<b>TOTAL CONTRIBUTIONS</b>	<b>1,570,443</b>
INVESTMENT INCOME (LOSSES)	(86,015)
Net Disposition in Fair Value of Investments	304,707
Interest	74,262
Dividends	401,284
Less Investment Management Fee	(171,082)
<b>NET INVESTMENT INCOME</b>	<b>290,860</b>
<b>TOTAL ADDITIONS</b>	<b>1,861,303</b>
DEDUCTIONS	
Member Benefits	2,000,675
Withdrawals	94,973
Administrative Expense	99,002
<b>TOTAL DEDUCTIONS</b>	<b>2,194,650</b>
CHANGE IN NET ASSETS	(333,347)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, Beginning of Year	20,487,493
End of Year	\$ 20,154,146
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, End of Year	\$ 20,154,146

**DOES NOT ROLL INTO  
GOVERNMENT-WIDE STATEMENTS**

See accompanying notes  
-12-



## Required Supplementary Information

- Budget exhibits for General Fund and each major Special Revenue Fund
- Trend data for pension and OPEB plans



## Supplemental Information

- Combining statements to aggregate individual funds for “roll-up” to basic financials

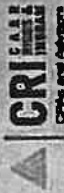


## STATISTICAL SECTION



## Statistical Section

- Chief source of information on the government's economic position
- Provides information on 5 Specific Objectives:
  1. Financial trends
  2. Revenue capacity
  3. Debt capacity
  4. Demographics and economics
  5. Operating Information



## Financial Trend Data

- Helps users understand and assess how the government's financial position has changed over time.
- Provides users with information about:
  - Net assets (10 years)
  - Change in net assets (10 years)
  - Fund balances (10 years)
    - Restatement for GASB 54 is optional
  - Changes in fund balances (10 years)



## Revenue Capacity

- Helps users understand and assess the government's ability to generate own-source revenue
- Schedules should focus on the government's largest single own-source revenue
- Provides users with information about:
  - The revenue base (10 years)
  - Revenue rates (10 years)
  - Principal revenue payers (current period & period 9 yrs prior)
  - Property tax levies and collections (10 years)



## Debt Capacity

- Helps users understand and assess the government's debt burden and its ability to issue additional debt
- Provides users with:
  - Ratios of outstanding debt (10 years)
  - Ratios of general bonded debt (10 years)
  - Information about direct and overlapping debt (CY)
  - Information on debt limitations (most recent year for calculation, 10 years for results)
  - Information about pledged revenue coverage (10 years)



## Demographics and Economics

- Helps users understand and assess the government's socioeconomic environment and to facilitate comparisons of F/S information over time and among governments
- Provides users with:
  - Demographic and economic indicators (10 years)
    - e.g., population, total personal income, per capita personal income, unemployment rate.
  - Information on principal employers (current period and period 9 years prior)



## Operating Information

- Helps users understand a government's operations and resources as well as to provide a context for understanding and assessing its economic condition
- Provides users with:
  - Number of Employees (10 years)
  - Operating Indicators about Demand or Level of Service (10 years)
  - Information about Capital Assets (10 years)



## Narrative Explanations

- Schedules should be accompanied by appropriate narrative explanations
- Explanatory material should be primarily analytical in character
- Specific requirements for narrative explanations:
  - Describe the objectives of the different types of information contained in the statistical section
  - Explain basic but potentially unfamiliar concepts
  - Explain how information provided elsewhere may help the reader to better appreciate the data presented in a given statistical table
  - Explain atypical trends and anomalous data that users would not otherwise understand
  - Describe the source of data not extracted from the F/S

## QUESTIONS?



Attachment II



## BEST PRACTICES

# Role of the Finance Officer in Supporting Fiscal Sustainability

GFOA recommends that finance officers take an active role in their governments' efforts to think and act sustainably.

Sustainability means meeting the needs of the present without compromising the ability of future generations to meet their own needs. The International Council for Local Environmental Initiatives (ICLEI), an international association of local governments for sustainable practices, identifies three interrelated bases of sustainability: environment, social equity, and economic (see Exhibit 1). ICLEI asserts that to act sustainably is to balance the aims of these bases with the need to use resources efficiently.

Acting in a sustainable manner is in the interest of all local governments. However, it is often unclear whether a specific decision or set of decisions can be considered “sustainable.” This can present a particular challenge when it comes to public finance.

**GFOA recommends that finance officers take an active role in their governments' efforts to think and act sustainably. Below are a number of tasks that the finance officer can undertake to support sustainability.**

**Helping to Define “Sustainability.”** Each government should define “sustainability” for itself. Some governments may emphasize one of ICLEI’s three bases over the others or emphasize

particular elements within a base. The objective is to reach a shared understanding of what sustainability means, while providing a definition what is specific enough to apply to a given project, program, or policy. Governments should also clarify whether their definition of sustainability applies only to the organization or to the community that the government serves. Of course, a broader definition will be more challenging to implement and will have different implications for which strategies are selected. The finance officer can contribute to this conversation by highlighting the need to balance the aims of environmental, social, and economic sustainability with the need to use resources efficiently.

In particular, the finance officer should suggest a definition for "financial sustainability," which can support the imperative to use resources efficiently. A starting point for the definition of financial sustainability is a government's ability to manage its finances so it can meet its spending commitments, both now and in the future, and whether it ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation. The finance officer should facilitate a discussion of what it means to be financially sustainable, with the objective of arriving at a set of principles that elected and appointed officials both agree to. These principles serve as the starting point for developing more detailed policies and are the basis for evaluating financial decisions.

**Reporting.** Once a definition of sustainability has been established, the finance officer should develop reporting methods that encompass environmental, social, and economic concerns. The objective is to help decision-makers better understand the implications of their decisions by developing salient measures of sustainability and demonstrating the impact of decisions on those measures (see Exhibit 2 for examples). Trends and the projected long-term disposition of these measures should be reviewed as part of the planning and budgeting process in order to assess the effectiveness of existing programs and to highlight where greater efforts may be needed.

## **Exhibit 2 - Examples of Sustainability Measures**

### **Environmental**

**Waste:** Trends in recycling, refuse, and yard waste. **Water:** Water consumption

**Transportation:** Public transit ridership **Economic**

**Personal income:** Personal income per capita **Unemployment:** Unemployment rate

Competitiveness: Third-party reports that rank the region Social

Safety and security: Crime statistics Education: Degree attainment levels of citizens Health and wellness: Infant mortality & blood lead levels

**Analyzing Return on Investment.** The finance officer should develop systems to analyze the return on investment (ROI) on projects/programs. This includes mechanisms that articulate less tangible benefits or costs that are difficult to translate into real dollar impacts (e.g., impacts made on measures of environmental, economic, and/or social sustainability), but that still highlights the real-dollar short, medium, and long-term affordability of an investment. The ROI analysis should highlight projects with material intangible benefits or costs. This will help decision-makers come to a more informed choice about the potential investment, based not just on the hard-dollar impact, but also on balancing competing goals.

Importantly, the application of ROI analysis should not be limited to capital projects. It could, for example, be applied to evaluating a tax change or a new fee intended to change certain behaviors on the part of constituents. Hence, the finance officer must both acclimate the organization to applying ROI analysis more broadly and develop ROI tools that are adaptable to different circumstances.

Finally, beyond just calculating an expected ROI, the finance officer should develop a monitoring system to determine if the ROI is actually being achieved. If not, then the program should be modified or cancelled so that its resources can be used more productively elsewhere.

- *Promote the consideration of full lifecycle costs in making investment decisions.* Full lifecycle costing considers the affordability of an investment over the short, medium, and long term, from initial acquisition to disposal. For example, a more efficient technology may cost more up front, but have a better long-term ROI. Lifecycle costing should be applied to both capital and operating investments.
- *Promote preventative investments.* The budgeting system should encourage decisions that prevent outcomes that negatively impact sustainability goals. Often, the alternative

to a preventative investment is more expensive, after-the-fact mitigation.

- *Supplement budgeting with methods to systematically improve efficiency.* Waste in business processes often translates to environmental and financial waste. The budget process is not the ideal forum for systematically identifying efficiency opportunities. The finance officer can promote process improvement methods that take place outside of budgeting, but that will ultimately have a positive impact on the budget.
- *Create the right incentives.* Promote budget policies to encourage departments to invest in efficiency. For example, a policy that rewards departments for reducing energy consumption will provide a better incentive than one that immediately turns the savings over to central control (e.g., allow the department to invest its first year energy savings in a short-term project).
- *Promote analysis of intergenerational equity and socio-economic equity in capital investment and financing.* Make sure the capital improvement planning process takes into account issues such as balancing investments between different geographic areas of the community and when a capital asset is paid for versus when it is consumed.
- *Integrate resiliency into capital project evaluations.* Resilient systems “reduce the probabilities of failure, the consequences of failure (such as deaths and injuries, physical damage, and negative economic and social effects); and the time for recovery.”<sup>6</sup> Hence, the objective of a capital planning system should be to maximize an asset’s resistance to extreme events and minimize the time required for recovery (while, of course, balancing against costs). Resiliency complements sustainability because a resilient asset will be better positioned to serve future generations of constituents than a non-resilient one.
- *Regularly update long-range financial plans and forecasts.* Long-range financial plans and forecasts are an important tool for ensuring that a government’s cost structure and service strategies are economically and financially sustainable and should be updated on a regular basis.

**Board approval date: Tuesday, February 28, 2012**

Attachment III

## Exhibit I: Framework for Implementing Financial Sustainability

Strategic Goal	Financially Sustainable County Government				
Meaning	A financially sustainable county government provides valuable services to county residents within available means while proactively taking measures to build and preserve its ability to provide services in the long run.				
Key Concepts	Valuable Services	Within Available Means	Proactive Measures	Preserve Ability	Long-run View
Principles	Ensure continuing value of services in the future	Operate within available means and with minimal debt	Take charge of the organization's financial destiny	Build and preserve ability to produce	Plan to stay in business for the long term
Policy Objectives	<ul style="list-style-type: none"> <li>■ The county should periodically assess the current and future needs of its customers.</li> <li>■ The county should know whether customer needs are met.</li> <li>■ The county should periodically adjust the mix of services to maintain optimal usefulness.</li> </ul>	<ul style="list-style-type: none"> <li>■ Annual budgets are balanced, that is, financing sources equal total financing uses and no deficit exists.</li> <li>■ Budgetary controls are enforced.</li> <li>■ Managers are aware of the full cost of their decisions.</li> <li>■ Financial responsibility is everyone's responsibility.</li> <li>■ Department heads are accountable for budgetary resources under their control.</li> <li>■ County debts are at healthy level.</li> </ul>	<ul style="list-style-type: none"> <li>■ The county should identify key threats to financial health and plan to address them.</li> <li>■ The county should foster entrepreneurial activities that permit self-sufficiency.</li> <li>■ County management periodically assess the county's financial health and take the necessary corrective action to stay on course with the financial plan.</li> <li>■ The county should take measures, (reserves succession plans) to protect core services from destabilizing events.</li> <li>■ The county should identify stakeholders in the county's financial health and partner with them to chart and control the county's financial destiny.</li> </ul>	<ul style="list-style-type: none"> <li>■ The county should identify key assets, including infrastructure, financial capital and human resources and maintain their productivity.</li> <li>■ Cost recovery should be based on the objective of preserving ability.</li> </ul>	<ul style="list-style-type: none"> <li>■ The county should forecast long-term trends in services and resources and adopt strategies to maintain financial health.</li> <li>■ County management should consider the longterm effect of key decisions.</li> <li>■ The county should develop and maintain a long-term financial plan that is consistent with the county mission and other long-term plans such as the General Plan and capital improvement plans.</li> </ul>

Attachment IV





## GFOA RECOMMENDED PRACTICE APPLICABLE IN CANADA

### Preparing Popular Reports (2003 and 2007) (AAFR)\*

**Background.** The scope of financial reports presented in conformity with generally accepted accounting principles (GAAP) is broad and data in those reports are usually presented at a high level of detail. Such comprehensive and detailed presentations are needed to meet the needs of decision-makers and to demonstrate compliance with legal requirements to oversight bodies and others. Annual financial reports issued in conformity with GAAP are essential if governments are to meet their obligation to be accountable to their citizens. Unfortunately, the comprehensiveness and level of detail found in many GAAP reports may confuse or discourage those unfamiliar with accounting and financial reporting.

**Recommendation.** The Government Finance Officers Association (GFOA) has long been on record as encouraging every provincial and local government to issue a comprehensive annual financial report (CAFR) in conformity with GAAP. The GFOA also encourages governments to supplement their CAFR with simpler, "popular" reports designed to assist those who need or desire a less detailed overview of a government's financial activities. Such reporting can take the form of consolidated or aggregated presentations, or a variety of other formats. GFOA recommends that popular reports exhibit the following characteristics to be most effective:

1. The data in the popular report should be extracted from the CAFR.
2. The popular report should be issued on a timely basis, no later than six months after the close of the fiscal year, so that the information it contains is still relevant.
3. The scope of the popular report should be clearly indicated.
4. The popular report should mention the existence of the CAFR for the benefit of readers desiring more detailed information.
5. The popular report should attract and hold readers' interest, convey financial information in an easily understood manner, present information in an attractive and easy-to-follow format and be written in a concise and clear style.
6. The popular report should avoid technical jargon to meet the needs of a broad, general audience and the report's message should be underscored, as appropriate, by photographs, charts, or other graphics.
7. The narrative should be used, as appropriate, to highlight and explain items of particular importance.
8. Comparative data should be used constructively to help identify trends useful in the interpretation of financial data.

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\* Accounting, Auditing & Financial Reporting

9. Popular reports should be posted on the government's Web site. Hard copies, when issued, should be distributed in a number and manner appropriate to their intended readership (e.g., newspaper or magazine inserts, sample copies provided to libraries, sample copies provided to professional offices).
10. Popular report preparers should strive for creativity.
11. Users of popular reports should be encouraged to provide feedback.
12. Most important, the popular report should establish its credibility with its intended readers by presenting information in a balanced and objective manner.

**References.**

- GFOA Recommended Practice:
  - *Preparing Popular Reports* (1991, 1996, 2001, and 2006) (CAAFR), Approved by the GFOA's Executive Board, February 24, 2006.
- GFOA's Award for Excellence in Popular Annual Financial Reporting Program

Approved by the GFOA Committee on Canadian Issues, January 2007.