



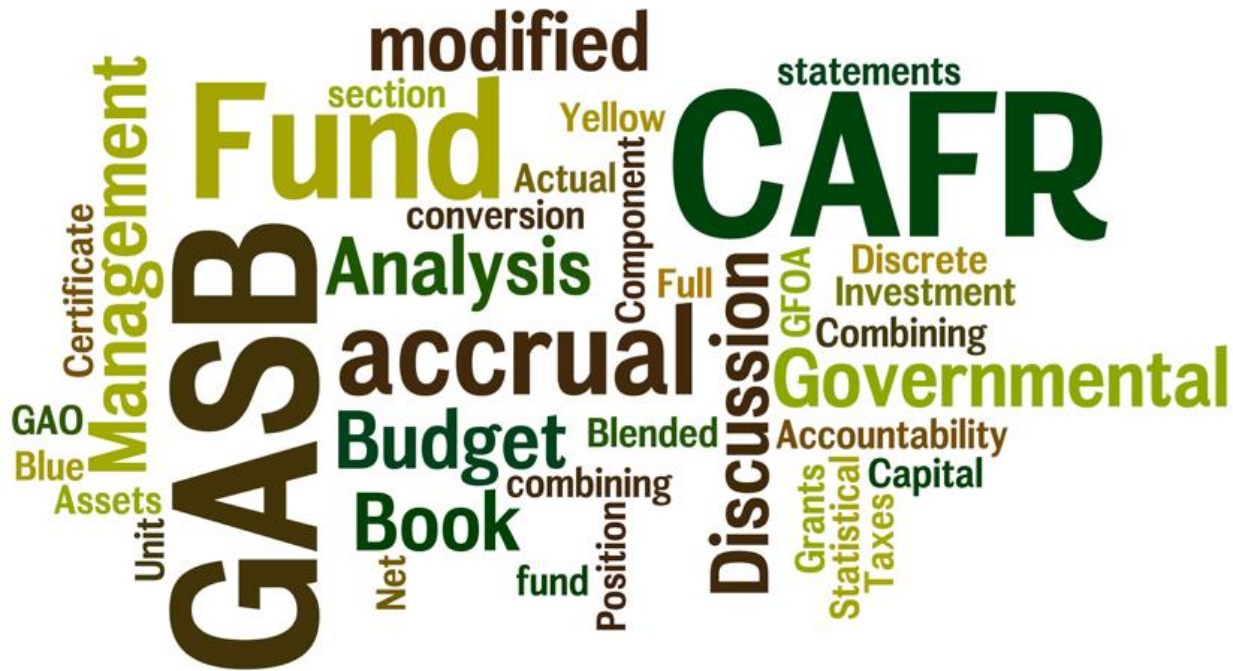
# Financial Statement Review and Audit Preparation

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# Learning Objectives

- Discuss differences in accounting and financial reporting for governments and for-profit businesses
- Overview of financial reporting model for governments
- Understand your role in the preparation and review of the annual financial statements
- Discuss basic analysis of governmental financial statements
- Learn how to prepare for an audit of your financial statements



# Example Governmental Financial Statements



# What Do Users Want to Know?

- Did the government's ability to provide services improve or decline from the previous year?
- Were the government's current year taxes and other sources of resources sufficient to cover the cost of current year services? Long-term?
- What are the government's spending priorities?
- What sources of revenues support the various programs?
- Has the government obtained and used resources in accordance with its adopted budget?



# Core Differences between FASB and GASB

## FASB

- Focus on Economic Events (Financial performance)
- Long-term and short-term reporting the same

## GASB

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



# Fund Financial Statements

## Governmental fund category

- General fund
  - Fund 10 – General fund
  - Fund 27 – Special education fund
- Special revenue funds
  - Fund 21 – Special revenue fund
  - Fund 23 – TEACH fund
  - Fund 29 – Other special revenue funds
  - Fund 50 – Food service fund
  - Fund 80 – Community service fund
  - Fund 99 – Other package and cooperative program fund
- Debt service funds
  - Fund 38 – Non-referendum
  - Fund 39 – Referendum approved
- Capital projects funds
  - Fund 41 – Capital expansion fund
  - Fund 46 – Long-term capital improvement trust fund
  - Fund 49 – Other capital projects fund
- Permanent funds



# Fund Financial Statements

- **Proprietary fund category**
  - Enterprise funds
    - Fund 50 – Food service
  - Internal service funds
- **Fiduciary fund category**
  - Pension (and other employee benefits) trust funds
    - Fund 73- pension and other employee benefit trust fund
  - Investment trust funds
    - Fund 76 – Investment Trust fund
  - Private-purpose trust funds
    - Fund 72- Private purpose trust fund
  - Custodial funds
    - Fund 60 – Custodial fund





# Governmental Funds – Measurement Focus

## Flow of current financial resources

- Emphasizes the acquisition and use of expendable available financial resources and related current liabilities
- Includes primarily current (short-term) financial assets and related liabilities
  - Cash
  - Items converted to cash in due course (receivables, investments)
  - Items that avoid the need for a near-term cash outlay – prepaids and supplies inventory
- Excludes capital assets and long-term obligations



# Proprietary Funds – Measurement Focus

## Flow of economic resources

- All economic resources (current and noncurrent, financial and nonfinancial)
- Includes long-term items – capital assets, long-term debt
- Similar to business



# Governmental Funds – Basis of Accounting

## Modified accrual basis

- Revenues recognized when they are measurable and available
  - Available- collectible soon enough after year end to be available to pay current liabilities – 60 day rule
  - If not yet available, receivable is offset by a deferred inflow of resources and revenue is recognized when it becomes available
- Expenditures are recognized when a liability has been incurred and is payable from currently expendable financial resource
  - Debt service expenditures recognized when due
  - Certain accrued liabilities (i.e. compensated absences)



# Proprietary Funds – Basis of Accounting

## Accrual basis

- Transactions are recognized when they occur, regardless of when cash is received or disbursed
  - Revenues when services or goods provided
  - Expenses when liability is incurred
- Similar to business



# Fund Equity/Net Position

- Governmental Funds
  - Fund Balance
    - Nonspendable
    - Restricted
    - Committed
    - Assigned
    - Unassigned
- Proprietary Funds
  - Net Position
    - Net investment in capital assets
    - Restricted
    - Unrestricted



# Government-wide Financial Statements

- Considers whether sufficient resources exist to cover the cost of providing services in the long-term
- Economic resources flows measurement focus
  - Capital assets
  - Long-term debt
  - Leases
  - Pension
  - Other postemployment benefits
- Accrual basis of accounting



# Management's Responsibility for Financial Statements

- Read the financial statements
- Tie key numbers to the general ledger
  - Ask for grouping schedules
- Agree note information to the financial statements
  
- Ultimately take responsibility for the financial statements and audit process



# Financial statement review

- What is important?
- Reconciliations
  - Why are reconciliations necessary?
  - How do I know when to prepare reconciliations?
  - Who should prepare?
  - How do they benefit me?
- Decision making
- Budgeting





# Preparation

- Prepared by client lists (PBC list)
- Preparing throughout the year
- Benefits/Consequences
- Questions



# Prepared by client list (PBC list)

- Allocate the requests to appropriate personnel (understand your teams)
- Prioritize
  - What will the auditors need in order to start fieldwork
  - Ask questions, have the auditors prioritize the list instead of guessing
- Request examples
- Be prepared for additional requests
- More information is better
  - Be sure to include supporting documentation up front, if possible
  - Number the items
- Dedicated time (efficiency)



# Preparing throughout the year

- Workflow matrix

5	Description	Person Responsible	Reviewer	Frequency					Cycle Days (actual day/date of the month/year)	Completion and Review/Approval			
				Daily/Weekly	Monthly	Quarterly	Annual	Various		Preparer Initials	Prepared Date	Reviewer Initials	Review Date
3	<b>Cash and Investments</b>												
3	Reconciliations												
0	Pooled cash				X		X						
1	List any additional individual cash reconciliations				X		X						
2	Scholarship accounts				X		X						
3	Investments												
4	Collateral update					X	X						
5	Review outstanding check listings for items significantly aged and determine resolution						X		1-Oct				
6	Review and sign off of bank recs				X		X						

- Contact your auditor

- Prioritize

- Balance audit needs and organization needs
- Organization
- Time management (i.e. prepaids do not need to be reviewed monthly)
- Delegate



# Benefits

- Reduced fieldwork time
- Deadlines met
- Less stress and questions
- Timely reporting to funding agencies
- More timely audit observations to apply to current year



# Consequences

- Fieldwork delay
- Missed deadlines
- Added stress
- Fines or delays in funding
- Increased likelihood for audit findings/adjustments
- Additional billings





Questions?

*We'll get you there.*





Thank you!!

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