



# Issuing Financial Statements *Faster*

Preparing financial statements takes time, but these tips can help governments speed up the process.

BY TODD BUIKEMA

**G**FOA has long advocated for state and local governments to prepare their financial statements in accordance with generally accepted accounting principles (GAAP).<sup>1</sup> While GAAP-compliant financial statements present useful information to the reader, they do not on their own provide a comprehensive financial picture of the government. The Governmental Accounting Standards Board (GASB), the GAAP standard-setting body for governments, encourages governments to also prepare annual comprehensive financial reports (ACFR).<sup>2,3</sup> (See Exhibit 1.)

The ACFRs of approximately 4,400 governments participating in

GFOA's Certificate of Achievement for Excellence in Financial Reporting program (COA program) are awarded a certificate for substantially meeting the program criteria. One of the requirements is that the government must submit its ACFR to GFOA within six months of its fiscal year-end. To identify standouts for timely reporting, GFOA reviewed submission times for award-winning ACFRs for the fiscal years ended 2018 to 2020. For that timeframe, we received an average of 13 ACFRs within a period of 100 days or fewer—that's 0.3 percent. GFOA reached out to officials at three governments that did so for all three of the fiscal years—Marni Hall, director of financial reporting for the City of Columbus, Ohio; Cory Gall, associate vice president of administrative services at Carl Sandburg College

in Galesburg, Illinois; and Dawn T. Donovan, town comptroller for the Town of Eastchester, New York—to find out what they are doing to produce their reports so quickly. Based on those interviews, we have compiled a list of the actions they took that may help other governments issue more timely financial statements.

It takes time to prepare a government's financial statements, and GFOA is aware of the challenges governments face in issuing their financial statements in a timely manner. Several factors contribute to the timing of when a government can issue its annual financial statements, either a GAAP-financial statements-only report or an ACFR. Many of these factors were addressed in a December 2019 *GFR* article titled "A Timeless Question

about the Timeliness of Financial Reporting,” written in response to concerns raised by the Securities and Exchange Commission and others about the timeliness of governments’ financial statements [at [gfoa.org/materials/timeless-question-gfr1219](https://www.gfoa.org/materials/timeless-question-gfr1219)]. However, these issues can usually be overcome through targeted efforts based on forethought and planning. In this article, we will explore how governments that achieve considerably more timely publication of their ACFRs are able to do so.

### Have a plan

Issuing a report in fewer than 100 days from your fiscal year-end requires planning. Numerous tasks must be completed before financial statements can be prepared and audited, and even the most experienced people forget to do something. Governments should therefore create a schedule of tasks, including when the task needs to be completed and the position/

person responsible for completing it. This schedule should not only include tasks specific to preparing the financial statements, but also for all steps necessary for year-end closing. Preparing financial statements takes time, and if numbers change, even by as little as \$1 in just one account, the financial statements may also need to change—which means that the general ledger needs to be finalized.

The schedule should be detailed. Tasks can range from specific year-end journal entries that need to be completed, such as pension and other postemployment benefit (OPEB) liability adjustments, each of the notes, and the financial statements. (See Exhibit 2 for an example.)

To meet the required deadlines, all parties involved need to review the proposed deadlines to ensure that they agree. A member of the financial reporting team should maintain the schedule, which should be reviewed *each day* to ensure that deadlines

are being met. It can be useful to use a tickler system such as calendar reminders—with sufficient advance notice—for the parties responsible for each assignment, especially regarding sections of an ACFR that primarily or exclusively require review and minimal updates. Examples may include the summary of significant accounting policies and disclosures for which everything other than final trial balance or financial statement amounts can be prepared in advance.

### Accruals

As governments prepare the year-end closing schedule, it will become apparent that completing the tasks requires information from many other departments within the organization, and possibly from external entities.

Accounts payable is an example of an area where the help of other departments will be needed to complete the year-end closing process. It is hard to know what you owe

## EXHIBIT 1 | ANNUAL COMPREHENSIVE FINANCIAL REPORT OVERVIEW

An annual comprehensive financial report (ACFR) provides the financial statements required by GAAP, plus the following, for a general-purpose government:

- **Introductory information.** The ACFR offers background on the structure of the government, the environment in which it operates, and the types of services it provides. It also provides a forum for management to offer a more subjective and forward-looking analysis of the government’s financial situation than would be appropriate for the basic financial statements and required supplementary information.
- **Information on individual funds and discretely presented component units.** The basic financial statements provide information on individual governmental and enterprise funds only for major funds, and for other fund types (internal service funds, each type of fiduciary funds) in aggregate. An ACFR provides individual fund data for nonmajor funds and other fund types, and for nonmajor discretely presented component units as well.
- **Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.** The ACFR offers a means for management to provide any additional schedules that may be needed to demonstrate finance-related legal compliance.
- **Statistical data.** The ACFR includes a statistical section that offers multiyear trend information, along with relevant economic and demographic information. (GASB Cod. Sec. 2200.101.)
- **Optional sections.** Governments also have the option to include additional sections in an ACFR; many include the federal funds single audit report.

**EXHIBIT 2 | FYE 12/31/20X1, GENERAL LEDGER CLOSING AND FINANCIAL STATEMENT TASKS**

TASK	ASSIGNED TO	DATE DUE	COMPLETION DATE
<b>GENERAL LEDGER CLOSE</b>			
FYE closing memo to departments	Comptroller	11/30/20X1	
Bank reconciliations	Accountant 1	1/15/20X2	
Other balance sheet account reconciliations	Accountants 1 & 2	1/25/20X2	
Accounts payable accruals	Accountant 1	2/2/20X2	
Water billing receivable	Accountant 2	1/31/20X2	
Final actuarial report for police pension plan	Comptroller	11/30/20X1	
Police pension liability adjustment	Accountant 2	12/31/20X1	
Review account reconciliations	Comptroller	2/10/20X2	
Close FY 20X1 general ledger	Comptroller/IT	2/17/20X2	
<b>FINANCIAL STATEMENTS</b>			
Table of contents	Accountant 1	2/20/20X2	
Transmittal letter*	Accountant 1	2/20/20X2	
Organizational chart	Accountant 1	2/20/20X2	
Principal officials	Accountant 1	2/20/20X2	
Certificate of achievement	Accountant 1	2/20/20X2	
MD&A*	Comptroller	3/10/20X2	
Statement of net position	Accountant 2	2/28/20X2	
Statement of activities	Accountant 2	2/28/20X2	
Note 1—Summary of significant accounting policies	Accountant 1	2/28/20X2	
Note 2—Cash and investments	Accountant 1	2/28/20X2	
RSI—Police pension fund	Accountant 1	2/28/20X2	
Nonmajor governmental funds—Combining balance sheet	Accountant 2	2/28/20X2	
<b>STATISTICAL SECTION</b>			
Table 1—Net position past 10 years	Accountant 2	3/2/20X2	
Table 2—Statement of changes in net position past 10 years	Accountant 2	3/2/20X2	
<b>AUDIT</b>			
Interim fieldwork	All	9/10 to 9/14 /20X1	
Confirmation letters	Accountant 1	1/2/20X2	
Year-end fieldwork	All	2/25 to 3/15 20X2	
Independent auditor's report	Comptroller	3/28/20X2	

\* Department heads and others with operational knowledge are needed to prepare these documents.

your vendors if you do not have the invoices available in the accounting department. In situations where invoices are routed to departments for approval before being entered into the accounts payable system, governments need to reach out to departments and request that they approve the invoices and route them back to the accounts payable department so they can be entered into the system. (While GFOA recognizes that some governments use systems without electronic approval processing for invoices, routing invoices for approval without some form of tracking or entry into a system is not a good practice.) Vendors may not be timely with submitting their invoices to the government, so estimates may be required. Departments could provide estimates of known expenditures that should be accrued to the current fiscal year. In either situation, before the end of the fiscal year, all departments should be given the timelines for when invoices or estimates need to be submitted so they are entered into the proper fiscal year.

Another example of needing other departments' help to complete the year-end closing process is accounts receivable. In governments that have decentralized billings, the billings must be accrued to the proper fiscal year. Intergovernmental revenue, including grants, taxes, and shared revenues, also needs to be accrued, and depending on the governmental agency providing the revenues, the receipts may not yet be readily known or available at the time of the year-end closing. If a government that has 60-day availability periods for revenue recognition chooses to wait 60 days to accrue actual rather than estimated receipts of intergovernmental revenues, issuing its financial statement within 100 days of its fiscal year-end will be a challenge. Governments can reach out to the providing governmental agency to obtain estimates or use their own professional judgement and make estimates based on known information and historical trends. As with accounts payable, departments should be notified, sufficiently before the fiscal year-ends, of the deadlines for submitting actual billing information or estimates, so they are entered into the proper fiscal year.

**Don't wait**

The preparation of financial statements begins before the end of the fiscal year, as shown in Exhibit 2. While some of those tasks had due dates after the fiscal year-end, many of them should be started well before. From an accounting perspective, some adjustments can be made throughout the fiscal year to reduce the amount of work that needs to be done at year's end. For example, a government makes debt service payments on its debt (such as bonds, leases, or notes) in a governmental fund and appropriately charges principal and interest expenditures. The government should make the conversion entry for the government-wide statements in the conversion/consolidation fund at the same time (see Exhibit 3).

Capital assets are another area where governments can make adjustments throughout the fiscal year. Rather than waiting until the end of the fiscal year to determine what purchases were made or the status of construction projects, governments should update the capital asset ledger for additions and deletions throughout the fiscal year. Governments could also charge depreciation expense on depreciable assets each month so if the asset is disposed of the net carrying value is current.

For governments that provide postemployment benefits for their employees, such as a defined benefit pension or other postemployment benefits (like retiree healthcare), periodic actuarial valuations are needed. To perform valuations, the actuary will need items such as census data—personal and demographic data about current and future beneficiaries. The government should update census information throughout the year. Depending on your organization's contract with the actuary, the government could also provide the updates to the census data and any other items the actuary needs during

**EXHIBIT 3 | CONVERSION ENTRY**

	DR	CR
<b>Debt service fund:</b>		
Expenditures—debt service—principal	\$100,000	
Expenditures—debt service—interest	39,135	
Cash		\$139,135
(Semi-monthly debt service payment)		
	DR	CR
<b>Conversion/consolidation fund:</b>		
Bonds payable	\$100,000	
Interest payable	39,135	
Expenditures—debt service—principal		\$100,000
Expenditures—debt service—interest		39,135
(Reclassification of debt service expenditure to reduction of related liability for government-wide reporting)		



**“Without dedicated resources, the timely completion of the project plan and checklist is at risk.”**

**MARNI HALL**, Director of Financial Reporting, City of Columbus, Ohio

the fiscal year—after the second or third quarter of the fiscal year, for example. This would allow the actuary to begin the calculation process earlier and just make updates for any changes occurring at the fiscal year-end. Alternatively, the actuarial valuation might use year-old data that would be rolled forward to the measurement date. If a pension plan has a different fiscal year-end from the contributing government, it might be possible to complete all the valuation work before the employer’s fiscal year-end.

Preparing a complete set of GAAP financial statements is a process that, for most governments, only happens once a year—but they should consider doing it more often. Statements could be prepared only for internal use, so it wouldn’t be necessary to make all the GAAP-required accruals or prepare a complete set of note disclosures. It may be helpful to prepare the statements using the current general ledger balances and to analyze those statements to ensure that balances are being reported properly, and perhaps to identify trends that might require explanation in the required supplementary information or letter of transmittal. As new general ledger accounts are added during the year, they need to be mapped properly to

the financial statements. Preparing statements during the fiscal year will help keep preparers’ knowledge of statement preparation fresh and reduce the amount of time it takes to find errors in the statements at the end of the fiscal year.

In addition to the monthly reconciliations of cash and investments that most governments prepare, organizations could save time at the end of the year by performing reconciliations of all balance sheet accounts throughout the year. For example, if a government has a utility billing system, the outstanding receivables at the end of each month from the system should be compared to the general ledger balance, and any discrepancies could be resolved. The same can be done with the accounts payable system. While staffing constraints might make it difficult to reconcile all balance sheet accounts once a month, governments could rotate accounts so that all will be reconciled every two or three months. Of course, this would not be applicable to accounts that are only updated at the end of the year (as in the deferred outflows and inflows of resources associated with postemployment benefits, which are updated each year based on the actuarial report).

Another key document that governments with federal grants or loans may have to prepare is the schedule of expenditures of federal awards (SEFA). The SEFA contains not only the expenditures for each grant, but also information about the federal agency that provided the grant and any pass-through entities that served as intermediaries in providing the funding to the government (such as a state agency overseeing federal funds that are passed through to a local government) and the identity of any subrecipients to which the reporting government has passed through federal funds. As with preparing GAAP financial statements, governments should prepare a draft interim SEFA before the end of the fiscal year to help save time in preparing the final. Governments should reach out to the administrators of the grant programs within their organizations to obtain information needed for the SEFA, namely: the federal agency providing the grant; the name of any other entities (government or nonprofit) that the grant was passed through by the federal government, and the name of any entities to which sub-grants were made; the assistance listing (AL) number (formerly the catalog of federal domestic assistance or CFDA number); and the grant identification

number, if available. Better yet, governments should routinely collect this information when the funds are made available in the program's budget. (See Exhibit 4.)

**Audit**

The independent auditor's report is integral to the issuance of timely financial statements and ACFRs. Governments need to work closely with their auditors and agree on timelines for deliverables to complete the audit so the government can issue its financial statements. Making sure that the auditors are aware of the government's desire to issue timely financial statements begins with the independent audit procurement process, where applicable. The government's request for proposals should include its timelines issuing the financial statements so any potential auditor understands the requirements of the government before placing a bid. After a firm is selected, the government should also ensure that the audit contract includes the dates for when deliverables are due from the auditor. Governments that have one or more single-employer pension plans or sponsor of one or more multiple employer plans should include similar considerations should in procuring of actuarial services for those plans.

Having an auditor who is familiar with government accounting and with the government itself is also essential to completing the audit in a timely manner. An auditor who has audited the government for multiple years and therefore has a good understanding of the processes and controls in place can complete the audit more quickly. GFOA recommends that governments enter into multiyear audit contracts to "allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain 'startup' costs over several years, rather than over a single year."<sup>4</sup>

The audit process does not occur only at year's end. Most audit firms will schedule some time before the end of the fiscal year to do interim audit work like updating and testing internal controls. The interim audit might also include performing compliance procedures. As noted above, governments can help reduce financial statement preparation time by completing an interim SEFA, perhaps with adjustments for federally funded programs for which they anticipate higher spending nearer to the fiscal year-end. Auditors could use the interim SEFA for a preliminary identification of major programs and

begin the compliance testing during the interim audit work period. In the first year with a new independent auditor, most or all the work needed to understand and document policies and procedures should be performed before the fiscal year-end.

Of course, auditors need material to audit. Government staff should follow the audit schedule discussed earlier so they know when materials are due. In many cases, these materials will become deliverables to the auditors. Delays in providing the auditors with government-prepared statements and schedules to audit will delay the issuance of the audit report. Governments also need a review process to make sure the materials going to the auditors are accurate.<sup>5</sup>

Providing accurate materials within the agreed-upon timeframes also helps build trust with the auditor. This trust won't reduce the amount of work, but it will ensure that the auditor will be there for your government, ready to work and share in your goal of issuing timely financial statements. If the government fails to meet agreed-upon deadlines or provides materials that are inaccurate, the audit process may be delayed, which may hinder the issuance of the independent auditor's report.

**EXHIBIT 4 | DRAFT INTERIM SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

	AL#	GRANT ID	FEDERAL EXPENDITURES
<b>U.S. Department of Housing and Urban Development</b>			
Passed through State of XYZ Department of Housing			
Community Development Block Grants/Entitlement Grants	14.218	20X1-1	\$1,435,545
<b>U.S. Department of Homeland Security</b>			
Passed through County of ABC			
Hazard Mitigation Grant	97.039	QFR-201	\$547,998
<b>U.S. Department of Justice</b>			
Bulletproof Vest Partnership Program	16.607	20X1	\$140,921

## Component units

Governments are required to include component units in their financial statements. These legally separate organizations, whether they are other governments or nonprofits, can issue their own financial statements and be audited by their own auditors, and they can have a fiscal year that is different from the primary government.

Ideally, the primary government and its component units would have the same fiscal year-end, but that doesn't always happen. While it is possible to change an entity's fiscal year, this isn't what we're proposing. Rather, primary governments could use a difference in the fiscal year-end of its component units to its advantage. Assume, for example, that a primary government's fiscal year-end is 12/31/X1, and its component unit's year end is 2/28/X1. GAAP allows for primary governments to use component unit financial statements whose fiscal year-end falls within the same fiscal year as that of the primary government, or within the first quarter subsequent to the primary government's fiscal year-end.<sup>5</sup> In this example, the primary government could use the component unit's 2/28/X2 financial statements, but the timing of issuing the audited financial statements may hinder the primary government's ability to issue timely financial statements. The primary government should consider using the component unit's 2/28/X1 financial statements in its 12/31/X1 financial statements, which would allow the primary government to receive the final audited financial statements in plenty of time to be included in the 12/31/X1 financial statements. A similar advantage may be gained when a pension or other employee benefit trust fund for a government's own employees and retirees has a different fiscal year-end, regarding both the financial statements and the actuarial valuation and disclosures.

To better coordinate the timing, governments with component units (especially those with fiscal year-ends that are the same as the primary government's) may find it beneficial to include the component unit as part of the government's contract for audit services. The component unit would be assured of a timely and coordinated audit, and economies of scale might be achieved by having one firm perform multiple audits. The primary government can incorporate language in the audit contract to ensure that all audit reports are issued by a required due date.

## It takes teamwork

If a government is going to issue financial statements within 100 days of its fiscal year-end, staff time needs to be devoted to make it happen. Private-sector entities are profit-driven and have staff members who are devoted to preparing financial statements. Governmental entities are not profit-driven; their focus is on providing public services. The finance/accounting department for most governmental entities is small and lacking in staff members who are devoted to preparing financial statements. During the financial statement preparation period, ongoing staff duties may need to be reprioritized or delegated to others so staff can focus on the financial statements. Governments should be open to requiring financial statement preparers to work overtime so they can meet the reporting deadlines.

If a government's staffing size does not allow for dedicated time to prepare financial statements, a solution is to hire a third-party firm or a temporary accounting employee or employees to prepare the financial statements. The advantage of hiring a third party is that it would be devoted exclusively to preparing financial statements and would not have to handle other issues that arise in running the government.

While a government's independent auditor is precluded from providing that substantive expertise to their audit clients, using a second CPA firm for this purpose might be a good option.

The commitment to prepare timely financial statements comes with a price, either for hiring a third-party or devoting staff time to this endeavor, which takes time away from other projects and may require additional accounting staff. All departments need to help provide information for preparing the financial statements. The support of senior management, possibly including elected officials, is also critical to making timely financial reporting possible. **■**

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<sup>1</sup> GAAP *Financial Reporting as the Base Line for State and Local Governments*, GFOA best practice.

<sup>2</sup> *2020-2021 Codification of Governmental Accounting and Financial Reporting Standards (Cod.)*, Section (Sec.) 2200, "Comprehensive Annual Financial Report," paragraph.101, Governmental Accounting Standards Board. Also see footnote 3, below.

<sup>3</sup> At the time of publication, the Governmental Accounting Standards Board has proposed but not finalized changing the term "comprehensive annual financial report" to "annual comprehensive financial report," which would be abbreviated as "ACFR." GFOA has adopted this language in this article in anticipation of it becoming GAAP shortly after publication.

<sup>4</sup> *Audit Procurement*, GFOA Best Practice.

<sup>5</sup> Auditors often uncover errors, even formula errors in spreadsheets.

<sup>6</sup> *2020-2021 Codification of Governmental Accounting and Financial Reporting Standards (Cod.)*, Section (Sec.) 2600, "Reporting Entity and Component Unit Presentation and Disclosure," paragraph.119, Governmental Accounting Standards Board.