



## ACCOUNTING

## Attention Required...STAT!

BY MICHELE MARK LEVINE

**A**s most readers know, annual comprehensive financial reports (ACFRs) are composed of at least three sections: an introductory section, a financial section, and a statistical section, often referred to (affectionately, of course) as the “stat” section. The requirements for a statistical section are found in the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting Standards Section 2800, “Statistical Section.”<sup>1</sup> The codification identifies the objectives of a statistical section as providing “... additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to

understand and assess a government’s economic condition.”<sup>2</sup> Codification Section 2800 is interesting in that it constitutes generally accepted accounting principles (GAAP) that must be followed by governments “...that prepare a statistical section that accompanies the basic financial statements,” even governments that don’t prepare a full ACFR—although GAAP don’t require governments to prepare a statistical section in the first place!

Independent auditors generally disclaim an opinion on a government’s statistical section, which may lead some to treat it as a low, or at least lower, priority.<sup>3</sup> Also, as many of the section’s tables include information extracted from the basic financial statements (BFS), they cannot be

finalized before those statements are finalized, perhaps resulting in less-than-thorough reviews. If last-minute adjustments are made to BFS, governments may forget to make the corresponding changes in the statistical section. Whatever the reasons, there are at least a half dozen errors that we see fairly frequently in the statistical section of ACFRs, many of which GFOA has been seeing since the implementation of the current financial reporting model more than 20 years ago!<sup>4</sup> So, let’s take the opportunity to refresh our memories on these old topics, and—so we’re not always going to be playing catch-up—let’s also plan for the effects that some recent GASB pronouncements will have on amounts reported in statistical sections in the very near future.

## The most frequent discrepancies between the financial and statistical sections occur when the amounts reported in financial statements and note disclosures for outstanding debt don't agree with the amounts in the debt capacity tables.

The statistical section includes information on the reporting government's:

- Financial trends—how financial position has changed over time.
- Revenue capacity—ability to generate own-source revenue.
- Debt capacity—level of debt burden on taxpayers and the ability to issue additional debt.
- Demographics and economics—how socioeconomic condition and financial information have changed over time.
- Operating and capital asset trends.<sup>5</sup>

In the ACFRs submitted with applications to GFOA's Certificate of Achievement for Excellence in Financial Reporting Award Program (COA), we see a variety of errors throughout the statistical section, but most frequently we see disagreement between the amounts included in the statistical section and those reported in financial statements and note disclosures. Of course, we see some

numerical inconsistencies even *within* the financial section, but they are especially numerous between the two sections.

The most frequent discrepancies between the financial and statistical sections occur when the amounts reported in financial statements and note disclosures for outstanding debt don't agree with the amounts in the debt capacity tables. Governments often accurately include unamortized original issue premiums and properly net out unamortized original issue discounts in the financial section but fail to make the same adjustments to amounts shown in the debt capacity schedules. Additionally, the liability for the accreted interest on deep-discount (also known as “zero-coupon” or “capital appreciation”) bonds should be included as a liability in the statistical section as it is in the financial section.<sup>6</sup>

Also, with regard to debt capacity, in the information on direct and overlapping debt, governments often fail to include all types of debt, which include bonds and notes payable, bank loans, certificates of participation, lease liabilities, and, very soon, public-private and public-public partnership (PPP) liabilities and subscription-based information technology arrangement (SBITA) liabilities. The total direct debt reported on this table should equal the total debt reported in governmental activities. Finally, the calculation of net bonded debt requires governments to deduct amounts legally restricted for their payment from total bonded debt, but governments often deduct amounts that are (mysteriously) greater than the amount of net position restricted for debt service shown on their statements of net position—so one or the other must be in error.

In the financial trends information, governments that prepare statistical sections are required to provide information about changes in

governmental fund balances, including ratios of total debt service to noncapital expenditures. The debt service used as the numerator for this ratio should be the total of principal and interest expenditures for the year, and costs of debt issuance should not be included. The calculation of the denominator of this fraction is the more frequent source of errors. The amount of *capital expenditures* that should be deducted from total expenditures to arrive at noncapital expenditures is not necessarily the amount of *capital outlays* reported in the governmental funds statement of revenues, expenditures, and changes in fund balance; it must be the amount of the year's expenditures that were actually *capitalized*. By capitalized, we mean that they were included in increases to general governmental capital assets in the conversion to governmental activities reported in government-wide financial statements.<sup>7</sup> This amount will be a reconciling item between the governmental funds statement of revenues, expenditures and changes in fund balance, and the governmental activities in the government-wide statement of activities, and that reconciliation should be the source for the amount deducted to arrive at the denominator for this ratio in the financial trends table.

Looking ahead, in addition to the effects of including lease and PPP and SBITA liabilities as outstanding debt in the statistical section, there are statistical section implications of GASB Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100).<sup>8</sup> In that statement, which will become effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter,<sup>9</sup> GASB provides guidance on how accounting changes and error corrections should be treated in both required supplementary information (RSI) and other supplementary

information [SI], the latter of which includes the statistical section.<sup>10</sup> For those fiscal years included in the basic financial statements, RSI and SI should be reported at amounts consistent with the amounts reported in the statements. Earlier periods also included in RSI and SI should *not* be restated for accounting changes; however, they *should be* restated for all prior years, if practicable, for *error corrections*. And, as always, we are reminded that being difficult or inconvenient does not make a restatement “not practicable.”

<sup>1</sup> GASB Codification of Governmental Accounting Standards, 2022-2023 edition (Cod.).

<sup>2</sup> Cod. Section (Sec.) 2800, “Statistical Section,” paragraph .104.

<sup>3</sup> Independent auditors do read the stat section of an ACFR to make sure that, as other information in annual financial reports, it is consistent with the audited financial statements.

<sup>4</sup> Generally, over time, we see governments become more familiar with new GAAP standards and see a marked decrease in related errors, but this does not seem to be the case for errors discussed in this article. We also have continued to see errors in the calculation of net investment in capital assets over this same extended period of time, as discussed in the February 2022 *GFR* article “From Confusing to Cringe-worthy: Errors Made in the Calculation of Net Investment in Capital Assets.”

<sup>5</sup> GASB Codification of Governmental Accounting Standards 2022-2023, Section 2800, “Statistical Section,” paragraph .105

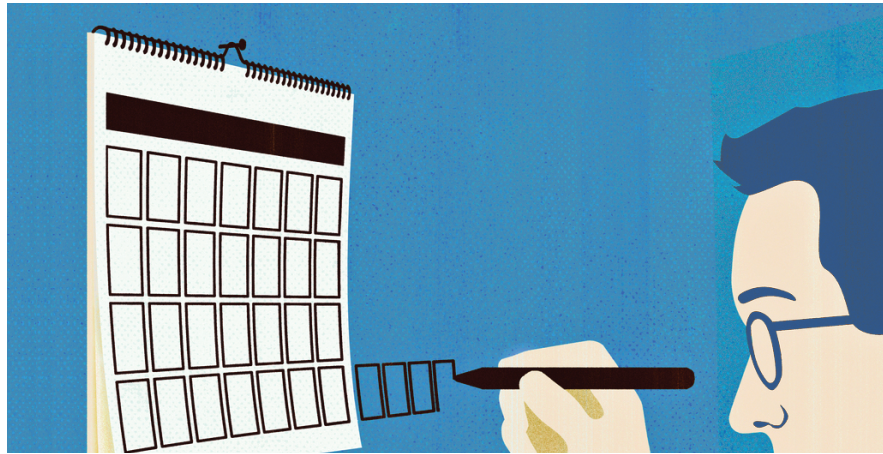
<sup>6</sup> Accreted interest on capital debt is *not*, however, considered to be a *capital liability* when calculating net investment in capital assets, as only the principal amount of such debt was used to acquire, construct, develop, or improve on capital assets.

<sup>7</sup> Governments often use the caption *capital outlays* only in connection with capital project expenditures made from capital projects funds, while routine capitalized expenditures may be reported as current period expenditures by function. Some costs of capital projects that ultimately do not get capitalized (e.g., amounts below the government’s capitalization threshold) may also be reported in capital outlays, so differences can go in both directions.

<sup>8</sup> See the August 2022 *GFR* article, “GASB 101. Literally.”

<sup>9</sup> Earlier application is encouraged.

<sup>10</sup> GASB Cod. Sec. 2800.101.



## It’s Time for Timeliness


The purpose of GFOA’s Certificate of Achievement for Excellence in Financial Reporting Award Program (COA) is to encourage and assist state and local governments in going beyond the minimum requirements of generally accepted accounting principles to prepare annual comprehensive financial reports (ACFRs) that evidence the spirit of transparency and full disclosure, and then to recognize individual governments that succeed in achieving that goal.

For financial reporting to be effective, the information in the reports must be *understandable, reliable, relevant, timely, consistent, and comparable*.<sup>1</sup> The COA program requirements incorporate each of these characteristics. The characteristic of timeliness is incorporated by requiring submission of applications and annual comprehensive financial reports (ACFRs) within six months of the end of the fiscal year covered by the ACFR.

The COA’s longstanding policy has been that governments could apply for an extension of one month when they experience extenuating circumstances, and this extension could be granted by GFOA staff. In certain cases, governments were permitted additional one-month extensions, up to a total of six extensions for a single year if circumstance warranted. With the extenuating circumstances caused by the COVID-19 pandemic, however, GFOA unofficially increased the maximum to

12 one-month extensions, meaning that with a COVID-19-related justification, a government could be eligible to win the award for an ACFR issued *up to 18 months after* the end of the subject fiscal year.

More than two and a half years after the start of the pandemic, however, GFOA needed to consider whether ACFRs that are made public a year or more after the financial statement date can reasonably be considered examples of *excellence in financial reporting*. While highly sympathetic to the many governments that continue to struggle with staff turnover and shortages<sup>2</sup> or that have had their audits delayed by CPA firms or government audit offices suffering from similar issues, the COA Special Review Executive Committee, which guides the award program, recently acted to reaffirm the importance of timeliness in financial reporting. They voted to formalize the six-month submission deadline and enforce stricter limits on extensions, while providing applicants the possibility to appeal to the SREC under certain circumstances.<sup>3</sup>

The extension policy and instructions for applying for an extension can be found on GFOA’s website at [gfoa.org/coa-award](https://gfoa.org/coa-award). 

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<sup>1</sup> Governmental Accounting Standards Board Concepts Statement No. 1, Objectives of Financial Reporting.

<sup>2</sup> GFOA continues to devote substantial resources toward helping address the ongoing shortages of qualified public finance professionals. See GFOA’s “Meeting Demand for State and Local Public Finance Jobs” report at [www.gfoa.org/meeting-demand-public-finance](https://www.gfoa.org/meeting-demand-public-finance).

<sup>3</sup> Please note that previously approved extensions will not be affected.