



427 SOUTH CHAPELLE  
C/O 500 EAST CAPITOL  
PIERRE SD 57501-5070  
(605) 773-3595  
FAX (605) 773-6454

MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

December 31, 2015

TO: Finance Officers of Large Municipalities Implementing GASB 34 on a Modified Cash Basis of Accounting (OCBOA)

FROM: Rod Fortin, Director of Local Government Assistance

RE: 2015 Municipal Annual Report Forms – Other Comprehensive Basis of Accounting

Enclosed are the annual report forms, worksheets and related instructions for use in completing your 2015 annual financial report. These forms are provided for your use in connection with statutory requirements imposed on the Department of Legislative Audit (SDCL 4-11-6 and 9-21-6). The discussion that follows constitutes our advice about the application of certain accounting principles that you may elect to implement for application in the preparation of your basic financial statements. However, the responsibility for the selection of appropriate accounting principles and their application in the basic financial statements remains with you.

SDCL 9-22-21 requires the annual financial report to be submitted to the governing body at the first regular meeting of **March** and published within thirty days thereafter or upon completion of an annual audit. The format and instructions for publication are listed on the Legislative Audit web site. Immediately after reporting to the governing body, municipalities of the first and second class are required to file a copy of select pages of the report with the Department of Legislative Audit.

These forms are to be completed by municipalities that have elected to complete GASB format statements on a cash/modified cash basis of accounting. Most of these municipalities also receive annual/biennial audits.

A 30-day extension of the reporting and filing dates may be obtained by E-mail ([rod.fortin@state.sd.us](mailto:rod.fortin@state.sd.us)), or mailing a written request to the SD Department of Legislative Audit. The request should state the reason for the extension and must indicate that your governing body agrees to the request. Reasons accepted generally are significant unforeseen events. (SDCL 9-22-21).

File by E-mail: [sheri.doolittle@state.sd.us](mailto:sheri.doolittle@state.sd.us)

File by Fax: 605-773-6454

File by Mail: Department of Legislative Audit  
427 S. Chapelle  
C/O 500 E. Capitol Avenue  
Pierre, SD 57501-5070

## REPORT PREPARATION

**ACCOUNT NUMBERS** – All annual reports that are filed with the department should have account numbers for each amount reported. The account numbers are necessary for entry into our database. If you hire an outside party to compile the annual report, please inform them of the need for account numbers. Financial statements prepared on your own software must also include the appropriate account numbers and be at the same level of reporting as the enclosed forms.

**LEVEL OF REPORTING** – If computer software generates your annual financial report, make sure that the level of detail in the report is the same as in the enclosed forms. For example, in the past, some municipalities reported "state shared revenues" in total rather than providing the required level of detail, such as: bank franchise taxes, Motor Vehicle licenses, liquor tax reversion, etc.

**CREATIVITY** – For years, teachers have tried to enlighten our minds and encourage us to be creative. I, on the other hand, am going to ask that you keep creativity to a minimum. Try to make all of your numbers fit the lines provided. You may even need to force a few minor numbers to a related area. Databases just do not accept account numbers that have not been provided.

**DEPOSITORY DISCLOSURE** – Besides presenting the enclosed financial report to the governing body in March, SDCL 9-22-21 also requires the finance officer to report "where and in what amounts the funds are deposited or invested". To meet this requirement a schedule in the following format may be used:

<u>Depository</u>	<u>Amount</u>
_____	_____
_____	_____
_____	_____
_____	_____

# **MUNICIPAL ANNUAL FINANCIAL STATEMENTS - MODIFIED CASH BASIS OCBOA**

## **INTRODUCTION**

The municipal annual financial statements consist of two government-wide financial statements and seven fund financial statements. The government wide financial statements present the overall cash position and results of operations arising from cash transactions of the municipality. The fund financial statements focus on individual parts of the municipal government, reporting the results of the municipality's operations in more detail than the government-wide statements to keep track of specific sources of funding and spending for specific purposes.

## **STATEMENT LISTING AND EXPLANATION**

### **GOVERNMENT WIDE FINANCIAL STATEMENTS**

#### **EXHIBIT I – STATEMENT OF NET POSITION**

The statement of net position reports cash assets and net position, grouped by governmental activities and business-type activities as of December 31. It shows the modified cash position of the municipality at that time. The statement should also present the cash assets and equity of component units of the municipality in a separate column (a common component unit is the local Housing and Redevelopment Commission). Fiduciary fund activity is not included in the government-wide financial statements.

#### **EXHIBIT II – STATEMENT OF ACTIVITIES**

This statement reports the results of operations arising from cash transactions, also grouped by governmental activities and business-type activities for each expenditure function (Department) of the government for the calendar year. The statement matches program revenues related to each expenditure function and nets the program expenses against program revenues. Program revenues are classified in the statement of activities as capital grants and contributions, charges for services and operating grants and contributions. All the remaining revenues which do not qualify as program revenues are listed separately as general revenues to compute the change in net position and ultimately the December 31, net position. The statement of activities should also include the respective revenues and expenditures of any component units in a separate column.

### **FUND FINANCIAL STATEMENTS**

#### **EXHIBIT III – BALANCE SHEET – GOVERNMENTAL FUNDS**

Exhibit III reports the cash assets and fund balance of major individual governmental funds at December 31. Each major governmental fund will be presented individually and a total column for all governmental funds is required. Nonmajor governmental funds must be combined and reported in a single column before the total column for all governmental funds.

#### **EXHIBIT IV – STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**

Exhibit IV reports the revenues, expenditures and changes in fund balances of major individual governmental funds for the calendar year. Each major governmental fund will be presented individually and a total column for all governmental funds is required. Nonmajor governmental

funds must be combined and reported in a single column before the total column for all governmental funds. Revenues should be presented by major source and expenditures should be reported by sub-function/department.

#### **EXHIBIT V – STATEMENT OF NET POSITION – PROPRIETARY FUNDS**

Exhibit V reports the cash assets and net position of proprietary funds at December 31. Each major enterprise fund will be presented in its own column, with a total column for all enterprise funds. Nonmajor enterprise funds must be combined and reported in a single column before the total column for all enterprise funds. Internal service funds must be aggregated in a single column, presenting all internal service funds separately from enterprise funds.

#### **EXHIBIT VI – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS**

Exhibit VI reports the revenues, expenses and changes in net position of proprietary funds for the calendar year. Each major enterprise fund will be presented in its own column, with a total column for all enterprise funds. Nonmajor enterprise funds must be combined and reported in a single column before the total column for all enterprise funds. Internal service funds must be aggregated in a single column, presenting all internal service funds separately from enterprise funds.

#### **EXHIBIT VII – STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

Exhibit VII reports the effects of cash flows of proprietary funds for the fiscal year. Each major enterprise fund will be presented in its own column, with a total column for all enterprise funds. Nonmajor enterprise funds must be combined and reported in a single column before the total column for all enterprise funds. Internal service funds must be aggregated in a single column, presenting all internal service funds separately from enterprise funds. Only the “direct method” for reporting cash flows, as explained in GASB Statement No. 9 is allowable.

Preparation of the statement of cash flows is optional for cash basis entities.

#### **EXHIBIT VIII – STATEMENT OF NET POSITION – FIDUCIARY FUNDS**

Exhibit VIII reports the cash assets and net position of fiduciary funds at December 31. Fiduciary funds are never considered to be major funds. Instead each fiduciary fund type (i.e., pension trust funds, investment trust funds, private-purpose trust funds and agency funds) will be reported as a separate column. The fiduciary funds are not reported as part of the government-wide financial statements.

#### **EXHIBIT IX - STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**

Exhibit IX reports the additions, deductions and changes in net position of fiduciary funds for the calendar year. The fiduciary funds are not reported as part of the government-wide financial statements.

## **WORKSHEET INSTRUCTIONS FOR COMBINING FUND FINANCIAL STATEMENTS**

The fund financial statements present combined data for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and fiduciary fund types which contain more than one fund. This means that the data for individual funds generic to that particular fund type must be accumulated before the nonmajor fund data can be presented on the fund financial statements. For example, a municipality may have more than one nonmajor governmental fund, based on the determination of major funds, which would be aggregated for presentation in a separate column on the governmental funds' financial statements as a separate column. This same procedure applies for all financial statements whether cash assets, equity or revenue and expenditures/expenses are being reported. This procedure applies only when there are two or more individual funds of the same type.

The combining procedures require a combining worksheet for each statement upon which combined data will be presented. A separate column should be set up on the worksheet for each individual nonmajor fund. The data for each individual nonmajor fund is listed. When these individual nonmajor fund columns are complete, the data is then combined in a total column for each fund type. These totals are then transferred to the exhibits of the financial statements under the appropriate generic nonmajor fund type heading.

These combining worksheets must be retained for audit and filed with your copy of the financial statements in the finance office.

Because of the limited number of nonmajor funds in South Dakota municipalities, the combining worksheets will seldom be used.

## **WORKSHEET TO RECONCILE ADJUSTMENTS FROM FUND FINANCIAL STATEMENTS TO GOVERNMENT WIDE FINANCIAL STATEMENTS**

A working trial balance worksheet format may need to be prepared to show the reconciliation process of generating the government-wide statement of net position and statement of activities. The worksheet starts with the fund financial statement format and employs journal entries to consolidate the financial data to a government-wide financial statement format.

## **NOTES TO THE FINANCIAL STATEMENTS**

Notes to the financial statements are an integral part of the financial statements. Even though an independent auditor may provide guidance and technical advice, and even assist in drafting them, the information in the notes to the financial statements is the responsibility of management of the municipality. Municipalities are encouraged to prepare their own notes to the financial statements. Completing the notes to the financial statements may save a municipality audit time and audit cost. A suggested format for the Notes to the Financial Statements is available on the Department of Legislative Audit municipal web page.

## **OTHER SUPPLEMENTARY INFORMATION**

### a. Budgetary Comparison Schedule (Recommended)

Budgetary schedules will now present the original budget and the final budget in separate columns. Budgetary comparisons used to be required for all fund types adopting budgets but now are required for the General Fund and for each major special revenue fund that is legally required to adopt a budget. Budgetary reporting is not required for nonmajor special revenue funds. In addition, budgetary comparison reporting is not required for any capital projects funds. If completed, modified cash basis entities should consider this to be supplementary information, not required supplementary information.

### b. Notes to Supplementary Information- Budgetary Comparison Schedules

The notes to the supplementary information for the budgetary comparison schedules are used to disclose the Municipality's procedures in establishing the budgetary data reflected in the financial statements, to disclose any overdrafts of the expenditures compared to appropriations at the legal level of budgetary control, and to disclose any differences between GAAP basis and Budgetary Accounting basis.

### c. Combining Statements (discussed above)

### d. Schedule of Changes in Long-Term Debt

A schedule of changes in long-term debt should be presented as supplementary information since only cash assets are reported on the financial statements. The schedule should also include long-term interfund loans as part of long-term debt reporting.

### e. Schedule of Expenditures of Federal Awards (if applicable).

This schedule, listing federal dollars spent by program (CFDA number), should be prepared and retained for use by the independent auditor.

### f. Schedule of Funding Progress (OPEB)

For those entities that have OPEB (Other Post-Employment Benefits) a Schedule of Funding Progress may be included as supplementary information. This schedule reports select OPEB information covering three years.

### g. Schedule of Municipality's Proportionate Share of the Net Pension Liability (Asset)

This 10-year schedule presents the following for each year: 1) the Municipality's proportion (percentage) of the collective net pension liability (asset); 2) the Municipality's proportionate share (amount) of the collective net pension liability (asset); and 3) the pension plan's fiduciary net position as a percentage of the total pension liability.

### h. Notes to Supplementary Information- Pension Schedule

Notes disclosing information about factors that significantly affect trends in the amounts reported in the Pension Schedule. For example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions should be presented as notes to the schedules. (Note that the amounts presented for prior years should not be restated for the effects of changes that occurred subsequent to the measurement date of that information.)