



Think Inside the Triangle™

# Who's balancing the Balance Sheet?



# What secret's are in your Balance Sheet?



Don't treat your Balance Sheet like it's **TOP SECRET** information.

Bring your balance sheets to meetings with your departments.

Prepare your analytics throughout the year; not just at year end.

Understand potential impacts of new accounting standards and reach out to your auditors if you need guidance.

# Who should know and who should they tell?

The accounts in your Balance Sheet should be not be treated as confidential data and limited to only top managers.

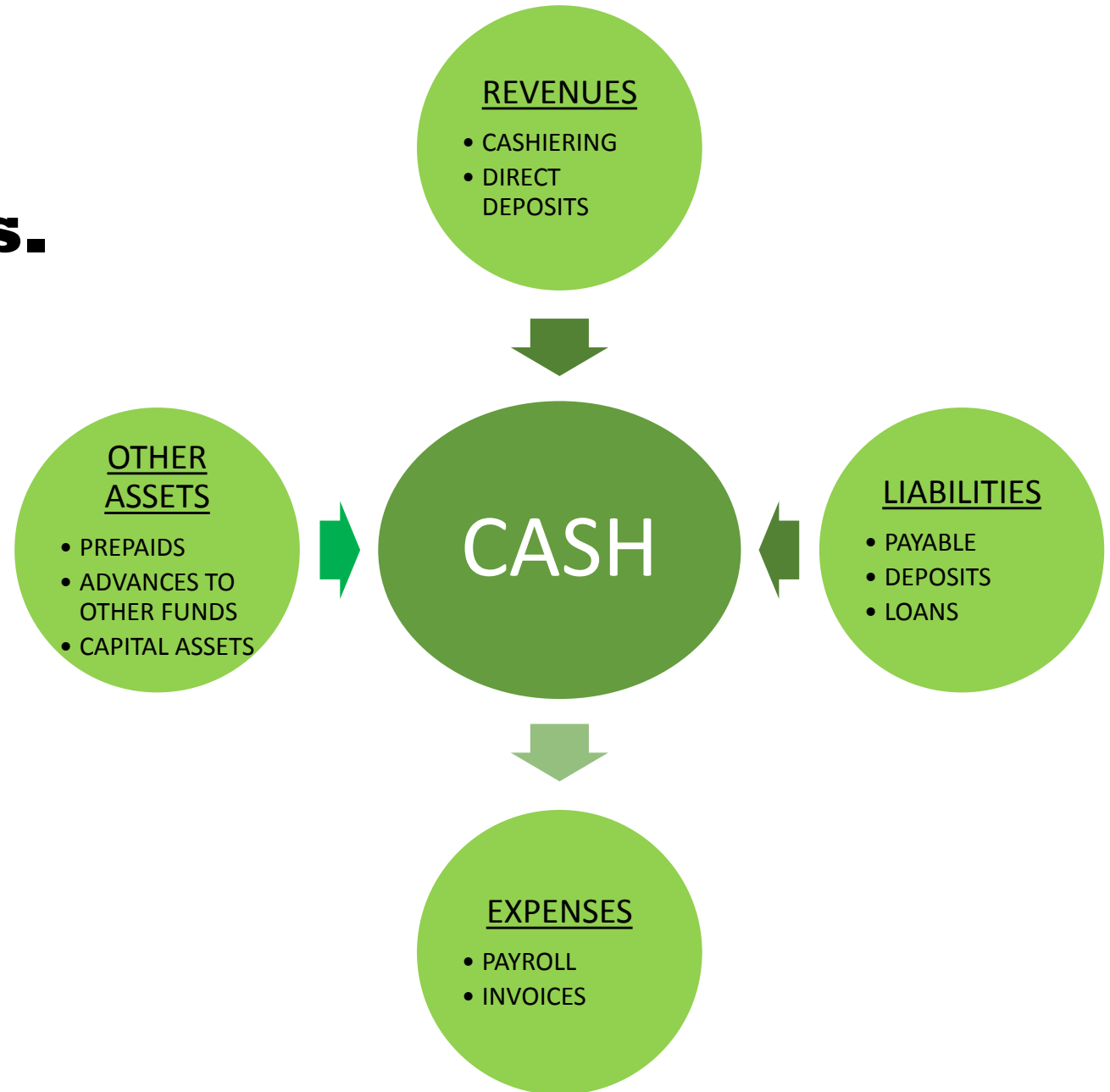
To properly manage your balance sheet, there should be ongoing discussions with staff and your auditors.



# CRITICAL ACCOUNTS: Always Balance your Cash Accounts.

If you have limited resources, focus your **attention** on your bank reconciliations.

Cash eventually touches every other account in your financials.





## **1. CREATE WORKBOOKS TO HELP TRACK TIMING DIFFERENCES BETWEEN G/L AND BANK**

- a) Cash, checks, and credit card payments may post as a single batch in your G/L but impact your bank statement differently
- b) Warrants and payroll journals impact subledger accounts prior to posting to cash

## **2. SET UP PROCEDURES AND WORK APPROVALS FOR JOURNAL ENTRIES THAT HIT CASH DIRECTLY**

## **3. UTILIZE THE BANK RECONCILIATION SOFTWARE AND IMPORT BANK STATEMENTS DIRECTLY FROM THE BANK**



**1. DON'T PUT THE NEXT STATEMENT ON HOLD  
JUST BECAUSE YOU HAVEN'T CLOSED THE  
PRIOR MONTH**

**2. CREATE DAILY ASSIGNMENTS**

- a) Clear deposits and checks as often as your software permits
- b) Post bank fees, NSF, and other charges to your G/L (and subledgers) as they appear on the statement
- c) Recognize and correct discrepancies by reconciling more regularly

# **AUDITOR'S FOCUS**

## **Cash and Investments**



1. Relates to Other Audit Areas (Revenue and Expenditures) – testing may focus on month, quarter or year-end balances
2. Reconciling Items – are they current?
  - a. Outstanding Check Listings - have they been analyzed?
  - b. Unposted JEs?
  - c. Are reconciling items indicative of system issues?
3. Unreconciled Differences -
  - a. Are identified and not buried
  - b. When did the problem start?

# **AUDITOR'S FOCUS**

## **Cash and Investments**



4. General Ledger provided for audit – does it still agree with the reconciliations, or were additional adjustments posted?
5. Pooled Cash and Fiscal Agent Accounts – are all reconciled?
6. Negative cash balances in the GL – if not related to timing issues -
  - a. How long has it been negative?
  - b. What is the underlying cause – error, oversight or results of operations?

# CRITICAL ACCOUNTS: Deposits, Retentions, and Other Liabilities

Liabilities  
will lock up  
assets but  
are often  
the most  
forgotten  
accounts



It came without **contracts**. It came without **resolutions**. It came without **records, receipts** or **solutions**. And we puzzled and puzzled 'till our puzzler was sore. Then we thought of something we hadn't before. What if **deposits**, we thought, don't come from **Finance**. What if **deposits**, perhaps, means a little bit more.

# What is the account's origin?

**BALANCE SHEET  
ACCOUNTS ROLL-OVER  
YEAR OVER YEAR.**



But where did they start?

Why do you still have them in your General Ledger?

Has it changed or stayed the same?

Who is managing the accounts?

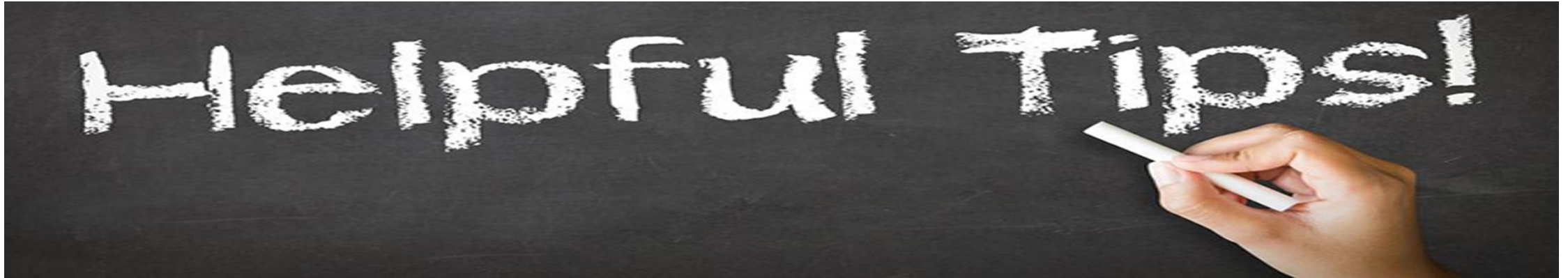
When was it last analyzed?

Who is initiating the transactions?

Why are there debits in your liabilities?

When do you clear out the liabilities?

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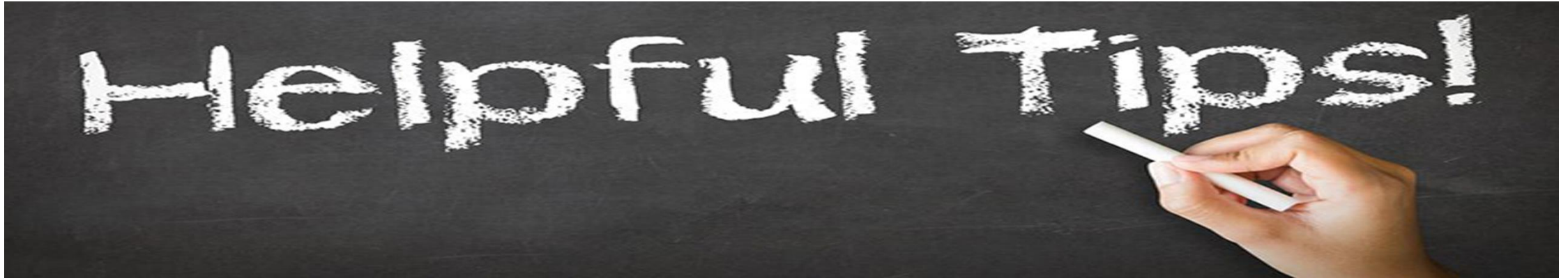
## **1. DETERMINE THE ORIGIN AND LIFECYCLE OF THE LIABILITIES IN YOUR BALANCE SHEET**

- a) Interview the supported department
- b) Research the history
- c) Verify your balances and close dormant accounts



## **2. CREATE A MASTER FILE FOR EACH DEPOSIT**

- a) Use the chart of accounts and project management software to help track account activities
- b) Establish origination documents and annual reconciliation sheets to master file
- c) Even if you collapse accounts for financial reporting, know the details behind each balance



## **1. ESTABLISH RESPONSIBILITY ROLES BOTH IN FINANCE AND OTHER DEPARTMENTS**

- a) Set up procedures to manage the accounts
- b) Schedule regular meetings with departments to go over actions and their triggers
- c) Evaluate and verify postings in both the balance sheet accounts and income statements as they occur

# Has your account balance changed this year?



Below

Search ID: rman2947

"We tried to roll your account over,  
but it just played dead."

- Auditors often inquire about variances (up or down) – but does that tell the whole story?
- Balance unchanged – is it correct?
- When the auditor asks a question that results in an **Audit Adjustment** – is it indicative of an internal control problem?

# MANAGING CURRENT ASSETS AND CURRENT LIABILITIES: ACCOUNTS RECEIVABLES AND ACCOUNTS PAYABLES



- Manage your aging reports
  - Establish policies for collection and uncollectable accounts
  - Accounts Payables should clear out regularly.
    - **TIP:** Look for unposted batches; especially those sent from other modules like salary and utility billing
    - **TIP:** Implement process for clearing out old encumbrances
- Centralize your invoicing and cashiering process
  - If off site locations are creating billing and/or collecting payments, establish reconciliation procedures to manage their activities.

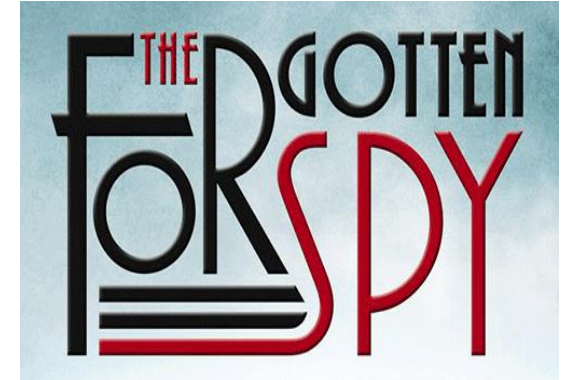
# MANAGING CURRENT ASSETS AND CURRENT LIABILITIES: ACCOUNTS RECEIVABLES AND ACCOUNTS PAYABLES



- Clearing out prior year balances
  - Create separate procedures for system-generated invoices verses year-end only receivable accruals
    - **TIP:** Create lead sheets for revenues based on regular payment cycles
    - **TIP:** Don't forget to reverse journal entries after beginning of new fiscal year
  - Understand how your software applies over or under payments to your customer accounts

# MANAGING ASSETS:

## INVENTORY, PREPAID, AND OTHER FORGOTTEN ACCOUNTS



- Review and clear out prior year balances
  - Software conversion carryovers can leave a balance that needs to be manually cleared through a journal entry
  - Auditor adjustments need to be reversed in new fiscal year
- Reconcile inventory balances regularly
- Due From Other Funds verses Advances to Other Funds
  - This account is used to clean up negative cash accounts in other funds.
    - Establish a policy on how to treat these accounts in your financial statements and G/L.

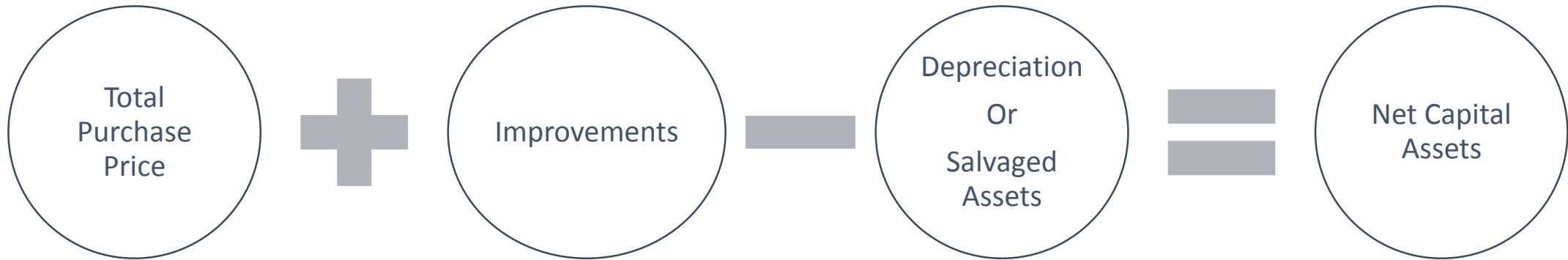
# **AUDITOR'S FOCUS**

## **Current Assets and Liabilities**



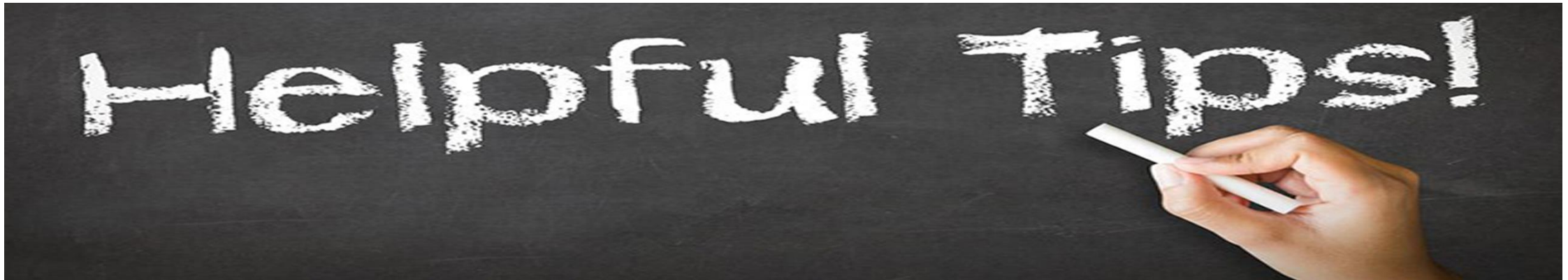
1. AR Aging – are balances collectible?
2. AP Aging – are balances current?
3. Due To / Due From balances – are all current (and payable)?
4. Unearned revenue (liability) vs Unavailable revenue (deferred inflow)
5. Leadsheets – great tool for understanding how GL accounts roll into the financial statements (and taking ownership)

# CRITICAL ACCOUNTS: Net Capital Assets



- Establish policy for what is considered a purchase or improvements to Capital Assets
- Establish policy and procedures for salvaged equipment

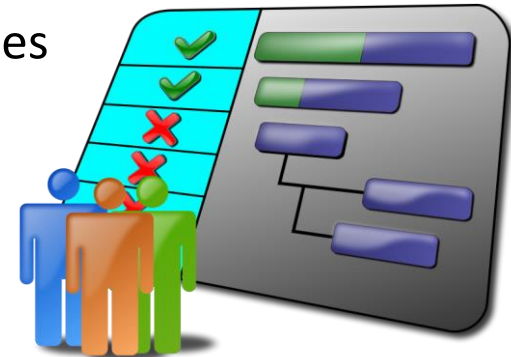
• **TIP:** Use Chart of Accounts to help track Capital Purchases and Sales



## **1. MONITOR COUNCIL AGENDA ITEMS TO HELP IDENTIFY PURCHASES THAT SHOULD BE LISTED AS CAPITAL ASSETS**

## **2. CREATE ROUTINE RECONCILIATIONS**

- a) CIP can be multi-year projects that need to record work-in-progress at year-end
- b) Identify funding early and evaluate if other Balance Sheet accounts will be affected
- c) Track budget and actuals throughout the project for timely reporting
  - **TIP:** Create a Gantt Chart to track project milestones



# **AUDITOR'S FOCUS**

## **Capital Assets**

**TOP PRIORITY**

1. Detail agree to GL?
  - a. Inventory for GL is different than inventory for FS
2. WIP – has it been analyzed?
3. Contributed Assets
4. Reconciling activity to Council/Board actions

# Relationship of the Balance Sheet and the Income Statement

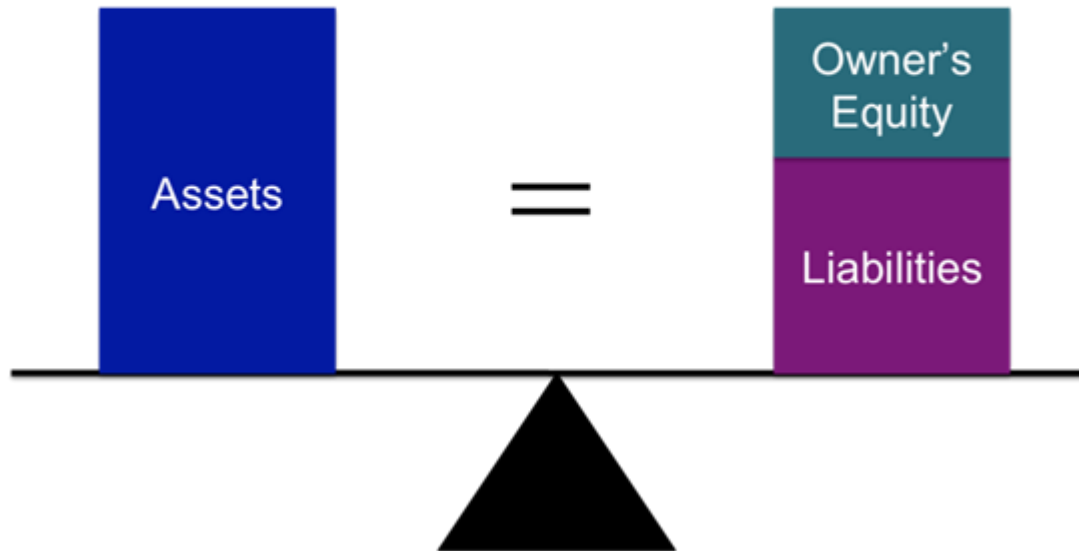
- Throughout the period revenues and expenses are recorded and offset by Assets or Liabilities.
- At year end revenues and expenses close to fund balance.

## **DO WE NEED A TRIAL BALANCE?**

- ✓ Trial Balance reflects all the activity for a fund within a selected date range.
  - ✓ It shows the balance of the accounts at the beginning of the date range, the activity within the date range, and the balance at the end of the date range.
- ✓ Periodic review is a helpful tool to verify accuracy of account balances.

How complicated has your balance sheet become? Can everyone still understand it?

## Balance Sheet



CITY OF TRACY GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2016					
	General	Housing Successor	TEA Grant	South County Fire Authority	Community Development Fees
<b>ASSETS</b>					
Cash and investments (Note 3)	\$29,021,461	\$847,400	\$10,516	\$1,527,108	\$9,181,264
Restricted cash and investments (Note 3)		51,671			
Cash and investments with fiscal agents (Note 3)					
Accounts receivable	6,413,188		5,946,803	1,262,108	1,132,499
Interest receivable	41,153	2,510		3,771	
Due from other funds (Note 4)	1,966,600				
Prepaid items	774				330
Deposits (Note 51)					
Loans receivable (Note 5)	524,443	12,824,183		5,122,537	
Advances to CDA successor agency (Note 5)		2,803,520			
Advances to other funds (Note 4)	5,366,594				
<b>Total Assets</b>	<b>\$43,334,213</b>	<b>\$16,529,284</b>	<b>\$5,957,319</b>	<b>\$7,915,524</b>	<b>\$10,314,093</b>
<b>LIABILITIES</b>					
Accounts payable	\$1,601,937		\$95,073	\$60,866	\$1,124,103
Due to other funds (Note 4)			5,150,000		
Deposits payable	754,686			18,838	9,316,260
Advances from other funds (Note 4)				5,122,537	
Unearned revenue	302,723				1,359,794
<b>Total Liabilities</b>	<b>2,659,346</b>		<b>5,245,073</b>	<b>5,202,241</b>	<b>11,800,157</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - accounts receivable			3,655,333	902,774	
Unavailable revenue - loans	19,270	\$12,824,183			
<b>Total Deferred Inflows of Resources</b>	<b>19,270</b>	<b>12,824,183</b>	<b>3,655,333</b>	<b>902,774</b>	
<b>FUND BALANCES</b>					
Fund balance (Note 9):					
Nonspendable					
Prepaid items	774				330
Advances	5,366,594				
Loans receivable	505,173				
Restricted		3,705,101		1,810,509	
Assigned	358,441				
Unassigned	34,424,615		(2,943,087)		(1,486,394)
<b>Total Fund Balances</b>	<b>40,655,597</b>	<b>3,705,101</b>	<b>(2,943,087)</b>	<b>1,810,509</b>	<b>(1,486,064)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$43,334,213</b>	<b>\$16,529,284</b>	<b>\$5,957,319</b>	<b>\$7,915,524</b>	<b>\$10,314,093</b>

See accompanying notes to basic financial statements

Where  
should revenue be recognized?



- **Cash**
- **Accounts receivable**
- **Deposits**
- **Unearned revenues**
- **Unavailable revenues**

Where  
*should expenses be recognized?*



- **Cash**
- **Prepaid Expense**
- **Capital Assets and Accumulated Depreciation**
- **Accounts/Salary Payables**
- **Debt**

# AUDITOR'S FOCUS

## **Balance Sheet and Income Statement**



1. Internal Control – isn't only related to revenues and expenditures – it encompasses financial reporting
2. Audit – purpose is not to verify 100% of the balances
3. FS Closing Process – purpose *is* to analyze and support all balances

# **AUDITOR'S FOCUS**

## **Balance Sheet and Income Statement**



4. Does TB balance?
5. Beginning Fund Balance/Net Position – agrees to PY audit?
6. Financial Statement Balance Sheet consists of 5 elements, but GL may only have 3 – is that a problem?
7. IS Accounts – include 12 months of activity?
8. Budget/Actual analysis – very important part of closing

**LAST  
MINUTE  
TIPS**



Your Mission  
Should You Choose to Accept...

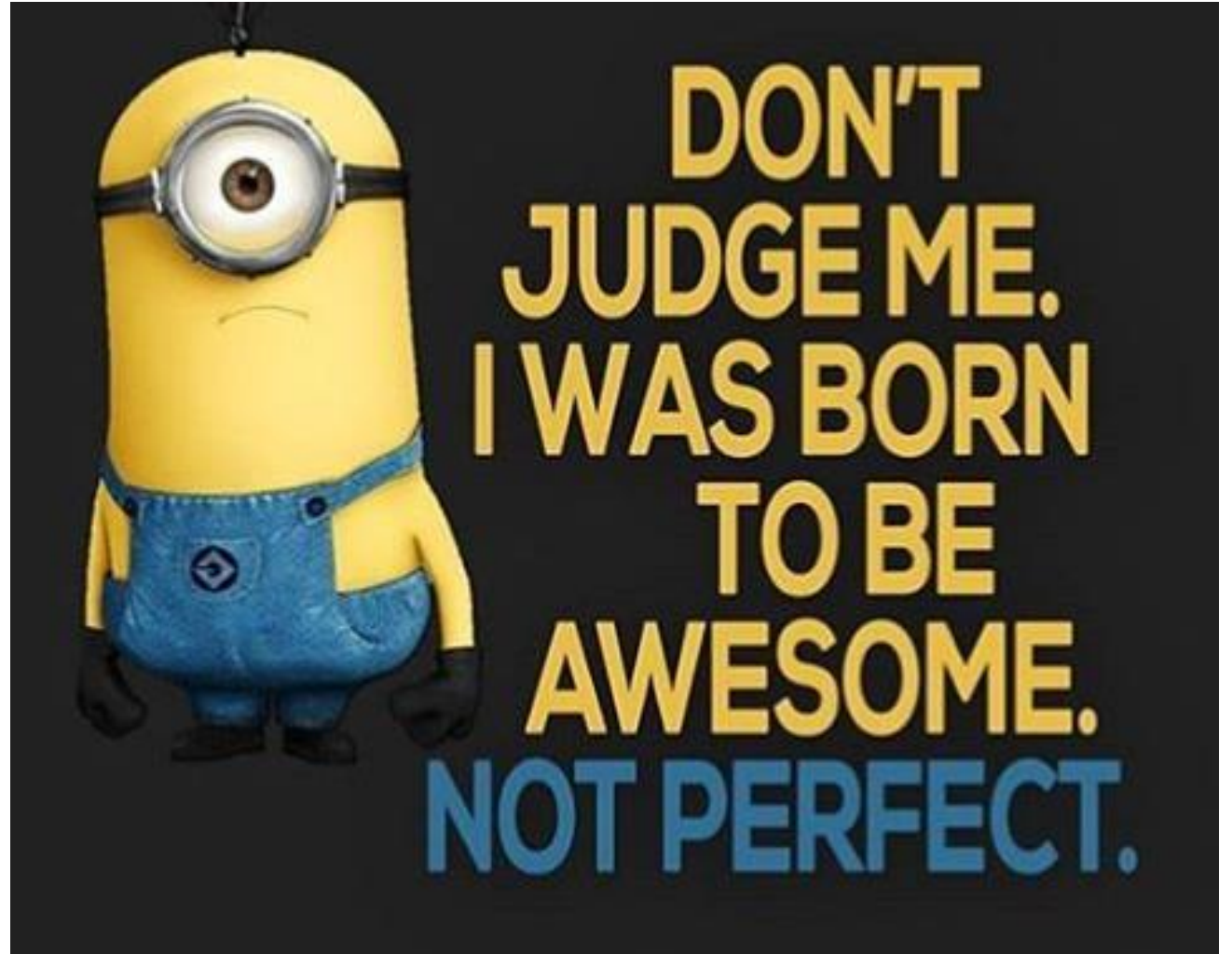


**Don't wait until  
year end to...**

**ASSIGN  
EVALUATE  
ANALYZE  
REVIEW  
CONFIRM**

**MISSION**  
**POSSIBLE**

**COMMUNICATE  
WITH YOUR  
STAFF, YOUR  
DEPARTMENTS,  
AND YOUR  
AUDITORS.**



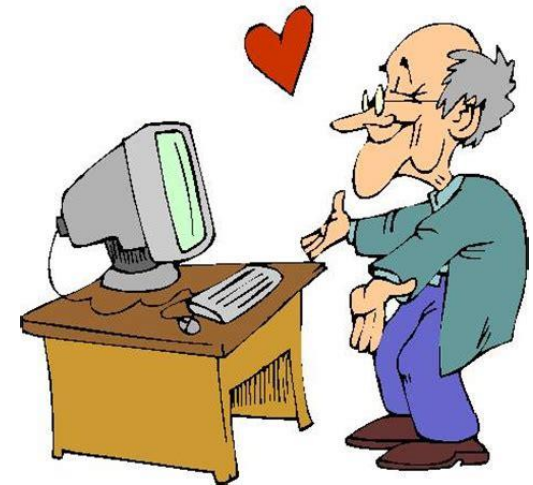
# Update your software!

## UPDATE



## Use Technology to improve efficiency and transparency!

## Take some training courses!



# The End



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