John Kasperek Co.

CERTIFIED PUBLIC ACCOUNTANTS

# FINANCIAL STATEMENT REVIEW GUIDE FOR MUNICIPALITIES

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# INTRODUCTION

On behalf of John Kasperek Co., Inc., we would like to thank you for the opportunity to serve as your independent auditor. Since our founding in 1989, our firm has been dedicated to supporting the financial needs of the Chicago Southland and surrounding communities.

Our professional staff is highly motivated and committed to providing personalized financial guidance to local governments as a way to invest in our communities' future. We are proud to specialize in municipal auditing and accounting consultation services; expertise that allows us to understand the unique challenges and responsibilities of local governments like yours.

As a local firm, we pride ourselves on attention to detail, accessibility, and hands-on service from every level of our team. This philosophy is why we have provided you with resources like this guide so you may better understand your annual audit and what it means for your local government's financial health.

# THANK YOU FOR CHOOSING JKC!

John Kasperek Jr.

&

Stephanie Blanco



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# 1.0 Audit Opinions

## OVERVIEW

An independent auditor issues a report at the conclusion of its audit engagement in which an opinion or disclaimer of opinion on the financial statements is expressed. This opinion tells readers how reliable the financial statements are and whether they present the entity's financial position fairly. There are four types of opinions ranging from the most favorable (unmodified) to the least favorable (adverse).

### 1.1 UNMODIFIED

Auditor found no material misstatements in the financial statements. The financial statements are presented fairly in all material respects.

### 1.2 QUALIFIED

Auditor has found certain issues or limitations in the financial statements but believes the overall financial statements are still a fair representation, except for those specific issues.

### 1.3 DISCLAIMER

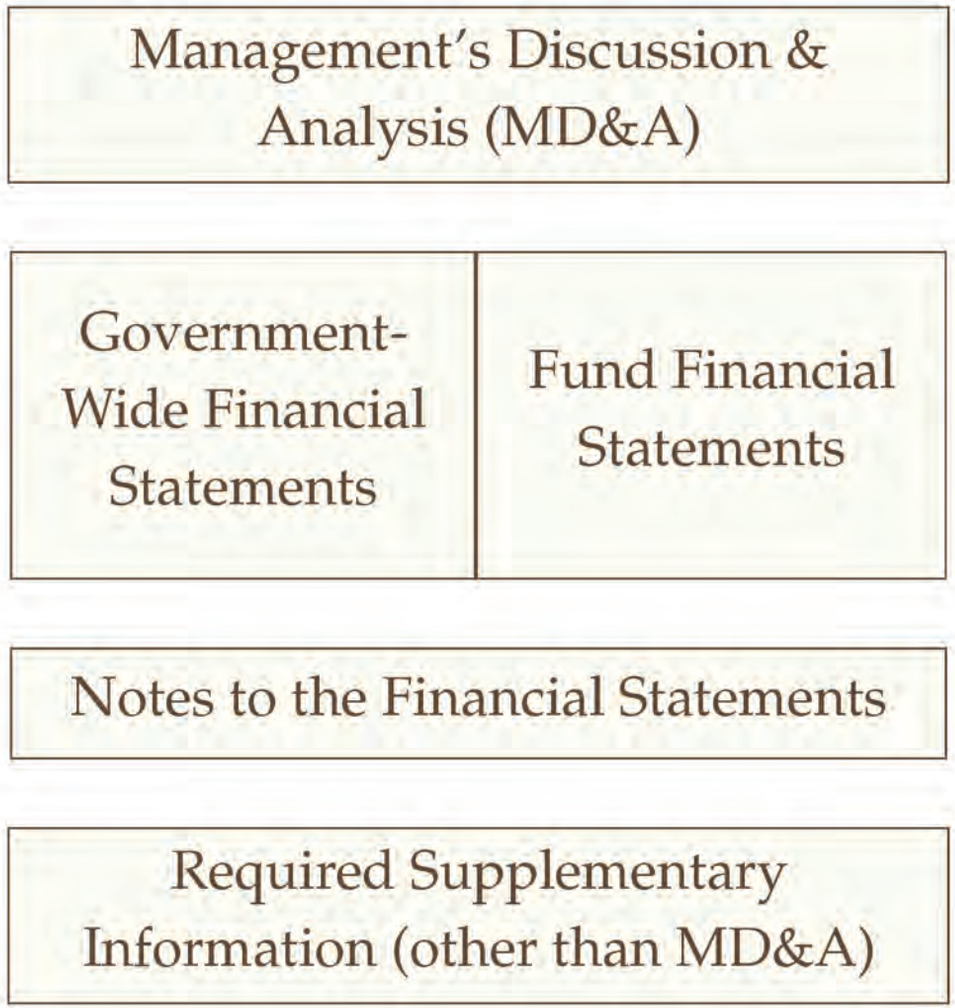
Auditor cannot express an opinion on the financial statements. There are significant issues such as scope limitations, lack of sufficient evidence, and uncertainty.

### 1.4 ADVERSE

Auditor has found material misstatements in the financial statements to the point they do not fairly present the entity's financial position.

# 2.0 GASB 34: The Financial Reporting Model

Before diving into the individual sections of your audit, it helps to understand how they fit together. The Governmental Accounting Standards Board (GASB) Statement No. 34 established the framework that organizes every local government's financial report. The following diagram illustrates the minimum requirements for general purpose external financial statements.



# 2.1 Management's Discussion and Analysis (MD&A)

The MD&A provides a narrative overview of the local government's financial performance for the year. It helps readers understand key trends, significant changes, and management's perspective on the entity's financial position and operations.

## 2.2 PURPOSE OF THE MD&A

- A narrative summary prepared by management.
- Provides insight into past performance, current financial standing, and future prospects.
- Helps users understand the long-term financial sustainability of the local government.

## 2.3 WHY IT IS REQUIRED

- Mandated by GASB (Governmental Accounting Standards Board).
- Ensures transparency and context for interpreting the audited financials.

# 3.0 Government-Wide Financial Satements

The government-wide financial statements provide a comprehensive overview of the local government's financial position and operations. They combine all funds to present the local government as a single entity, including capital assets (e.g., buildings, infrastructure, equipment, and land) and long-term debt obligations. Local governments report two primary categories of activities: governmental activities and business-type activities.
Governmental activities are generally funded through taxes and intergovernmental revenues, while business-type activities are financed primarily by fees charged for goods or services, such as water and sewer utilities.
Together, these statements offer a consolidated picture of the local government's financial condition and how its resources are managed.

## 3.1 STATEMENT OF NET POSITION

Presents what the local government owns (assets) and owes (liabilities), including capital assets, outstanding debt, and deferred outflows and inflows of resources, to show the overall financial health at year end.

## 3.2 STATEMENT OF ACTIVITIES

Details how the local government's net position changed during the year by reporting revenues and expenses for all governmental and business-type activities.

# 4.0 Fund Financial Statements

The fund financial statements show the financial position and activity of the local government's individual funds. They are a self-balancing set of accounts which present major funds individually, and non-major funds in combination. They highlight how resources are allocated, how revenues and expenditures compare, and whether each fund is operating within its means. These statements help assess the local government's financial stability and its ability to meet current and future obligations. There are three categories of funds used by local governments: governmental funds, proprietary funds, and fiduciary funds.

## GOVERNMENTAL FUNDS

### 4.1 GENERAL FUND

The local government's primary operating fund. It accounts for all financial resources that are not assigned to another fund and is always reported as a major fund.

### 4.2 SPECIAL REVENUE FUNDS

Used to account for resources that are restricted or committed for a specific purpose. The notes to the financial statements explain the purpose of each special revenue fund in your local government's report.

### 4.3 OTHER GOVERNMENTAL FUNDS

Commonly includes capital projects funds and debt service funds. The notes to the financial statements provide detail on each fund's purpose and activity.

# 4.0 Fund Financial Statements

## PROPRIETARY FUNDS

### 4.4 ENTERPRISE FUNDS

Enterprise funds operate like a business to fund their operating costs. They earn revenue through fees and charges for services. For example, a water fund charges customers for water usage. Common enterprise funds include water, sewer, commuter parking, and transit operations. See the notes to the financial statements for an explanation of the types of proprietary funds your local government maintains.

## FIDUCIARY FUNDS

### 4.5 FIDUCIARY FUNDS

Fiduciary funds represent assets held by the local government in a trustee capacity for others that cannot be used for the local government's own programs. Common examples include pension trust funds. They are not incorporated into the government-wide financial statements because they represent resources held for the benefit of individuals (such as disability or retirement benefits), not for the local government's own activities.

# 4.0 Fund Financial Statements

## 4.6 BALANCE SHEET

The balance sheet shows the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or fund net pension for each fund. It provides a detailed snapshot of each fund's financial position and shows what the ending fund balance or fund net position is. Each major fund is presented separately in its own column, with nonmajor funds aggregated and reported within a single column.

## 4.7 RECONCILIATION TO THE GOVERNMENT-WIDE STATEMENTS

A reconciliation is required to bridge the gap in the basis of accounting between the government-wide financial statements and the fund financial statements. The reconciliation identifies and explains the adjustments needed to move from the fund financial statements to the government-wide statements.

# 4.0 Fund Financial Statements

## 4.8 REVENUES, EXPENDITURES OR EXPENSES, AND CHANGES IN FUND BALANCE OR FUND NET POSITION

This statement shows the detail of revenues, expenditures or expenses, and other financing sources and uses for the year. There is a detailed breakdown for each type of revenue and expenditure or expense within each fund's schedule included within the supplementary information to the annual report.

# 4.0 Fund Financial Statements

## 4.9 STATEMENT OF CASH FLOWS

The statement of cash flows applies to proprietary funds and tracks how cash moves through the local government's business-type activities. It is organized into five sections:

- **Operating Activities:** Cash receipts from customers, payments to suppliers, and payments to employees.
- **Noncapital Financing Activities:** Receipts and payments for interfund loans and other noncapital borrowing.
- **Capital and Related Financing Activities:** Debt proceeds and debt service for capital-related transactions.
- **Investing Activities:** Cash payments and receipts related to investments made or liquidated.
- **Reconciliation of Operating Income:** Reconciles operating income to net cash from operating activities by showing adjustments for non-cash items and changes in assets or liabilities.

# 4.0 Fund Financial Statements

## 4.10 FIDUCIARY FUND FINANCIAL STATEMENTS

The fiduciary fund statements present the financial activity of funds held in trust, such as police pension and fire pension trust funds. These statements show additions (including contributions and investment income) and deductions (including pension benefits, refunds, and administrative expenses). They also report the change in plan net position, the beginning balance, and the ending balance, which provides a clear view of money coming in and money going out of each trust.

## 4.11 INTERPRETING FUND BALANCE & FUND NET POSITION

A positive fund balance or fund net position indicates that assets exceed liabilities within a given fund. Fund balance or fund net position is an important measure of a local government's financial health, as it reflects the resources available to meet current obligations and absorb unexpected costs. Income statements show the beginning fund balance or fund net position, ending fund balance or fund net position, and year-over-year changes.

# 5.0 Footnotes to the Financial Statements

The footnotes provide essential details and explanations that support the amounts and disclosures in the financial statements. They offer context about the local government's accounting policies, significant transactions, and compliance with laws and regulations, helping readers gain a clearer understanding of the local government's overall financial picture.

## 5.1 FOOTNOTES CAN ENCOMPASS ANY OF THE FOLLOWING

- Accounting Policies
- Significant Transactions
- Compliance with Laws and Regulations
- Specific Disclosures, such as
  - Cash and Investments
  - Capital Outlay
  - Interfund Receivables, Payables, and Transfers
  - Long-Term Liabilities
  - Pensions and Other Postemployment Benefits

# 6.0 Pension & OPEB Plans

This section explains the pension and other postemployment benefit (OPEB) plans in which the local government participates. These plans are established to provide retirement, disability, and health benefits for eligible employees. The specific plans will vary depending on the nature of the local government and the employees it serves.

## 6.1 DEFINING THE PLANS

**Illinois Municipal Retirement Fund (IMRF):** Provides pension, disability, and death benefits to non-certified employees of local governments. IMRF is one of the most common pension plans for municipal employees across Illinois.

**Police Pension Fund:** A single-employer defined benefit pension plan that covers all sworn police personnel employed by the entity.

**Fire Pension Fund:** A single-employer defined benefit pension plan that covers all sworn firefighter personnel employed by the entity.

**Other Postemployment Benefits (OPEB):** Includes benefits other than pensions, such as health, dental, or life insurance, offered to eligible retirees. The local government may also establish its own OPEB plan.

## 6.2 IMPACT ON THE LOCAL GOVERNMENT

These plans are reported for disclosure purposes only and reflect state, local-level actuarial valuations, and do not directly affect the local government's operational or financial decision-making. However, the funded status of locally managed plans (particularly police and fire pension funds) is important for long-term financial planning.

# 7.0 Combining Schedules

The combining schedules provide detailed financial information that supports the totals shown in the local government's basic financial statements. These schedules break down the activity of individual funds that are combined in the fund financial statements, offering a clearer view of how resources are distributed and used across specific purposes.

## 7.1 THE COMBINING SCHEDULES INCLUDE

**Balance Sheet:** Presents the financial position of each non-major fund at year end, including assets, liabilities, and fund balances. This allows readers to see how each fund contributes to the local government's overall financial standing.

**Statement of Revenues, Expenditures, and Changes in Fund Balances (Income Statement):** Shows the revenues, expenditures, and the resulting change in fund balance for the year for each non-major governmental fund.

**Non-Major Enterprise Fund Statements:** Provides combining balance sheet, combining statement of revenues, expenses, and changes in fund net position, and combining statement of cash flows for non-major enterprise funds.

# 8.0 Budget to Actual Comparisons

The budget to actual schedules compare the local government's approved budget to the actual revenues and expenditures for the fiscal year. This helps evaluate how closely financial activity aligns with the local government's spending plan and supports accountability in fiscal management.

## 8.1 ORIGINAL AND FINAL BUDGET

These columns represent the financial plan formally adopted by the governing body at the beginning of the fiscal year (original budget) and the final revisions approved throughout the year. Adjustments may occur due to changes in funding, service demand, or unforeseen expenditures. Comparing the original and final budgets shows how the local government adapted to operational needs and changing circumstances.

## 8.2 ACTUAL

This column reports the actual revenues and expenditures during the fiscal year. Comparing these amounts to the budgeted figures shows how accurately the local government projected its financial activity and whether resources were used as planned. It also reflects the local government's ability to manage spending within approved limits.

# 8.0 Budget to Actual Comparisons

## 8.3 VARIANCE ANALYSIS

The variance column shows the difference between the final budget and the actual results. Variances help identify whether the local government stayed within approved limits or experienced areas of over- or under-spending.

- Positive numbers indicate an over budget condition, where spending or revenue exceeded expectations.
- Negative numbers (shown in parentheses) indicate an under budget condition, meaning the government spent less or collected less than planned.
- Significant variances highlight areas worth reviewing, as they may point to changing operational needs, unexpected savings, or opportunities for improved forecasting.

## 8.4 PRIOR YEAR COMPARISONS

This column provides the actual revenues and expenditures from the previous fiscal year. Including prior year data helps identify year-over-year trends, such as changes in spending priorities, revenue growth, or cost-saving measures. Comparing multiple years provides valuable context for evaluating financial consistency and long-term planning.

## WHY IT MATTERS

These highlight the areas of over- or under-spending and serves as a tool for evaluating financial performance. It's used to guide future budgeting decisions as well as provides transparency and accountability in the entity's financial reporting.

# 9.0 Pension & OPEB Schedules

The pension and OPEB schedules provide detailed financial and statistical information about the benefit plans in which the local government participates. These plans typically include the Illinois Municipal Retirement Fund (IMRF), police and fire pension funds, and any Other Postemployment Benefits (OPEB) plans the local government has established. They do not have any bearing on the local government or how it operates, and the data is provided by the state and the local government's actuary.

## 9.1 WHY IS THIS INCLUDED IN YOUR AUDIT?

Including these pension and OPEB schedules ensures that the financial statements present a complete picture of all long-term obligations associated with employee benefits, even if those liabilities are managed and funded at the state level rather than by the local government itself. This provides transparency and consistency across all local government audits statewide.

## 9.2 IMPACT ON THE LOCAL GOVERNMENT

For state-managed plans like IMRF, they have no direct operational or budgetary effect on the local government. The information is included for disclosure purposes only, ensuring compliance with GASB standards and promoting statewide transparency and consistency in local government audits. However, for locally managed plans such as police and fire pension funds, the funded status and contribution requirements do have a direct impact on the local government's budget and long-term financial planning.

# 10.0 Property Taxes

The property tax section provides detailed information about the local government's property tax revenues, rates, levies, and collections. Property taxes are the primary source of local revenue for local governments in Illinois and play a critical role in funding municipal programs and operations. This section is included to provide transparency regarding how the local government's tax revenue is generated, collected, and allocated. It offers stakeholders a clear view of the local government's financial reliance on property taxes and supports accountability in local funding.

## 10.1 EQUALIZED ASSESSED VALUATION (EAV)

Reflects the total value of taxable property within the local government, as determined by the county assessor and equalized by the Illinois Department of Revenue. Changes in EAV directly impact the local government's ability to levy property taxes.

## 10.2 TAX LEVIES

Show the total dollar amount of property taxes the local government is authorized to collect for each fund. Levies are established annually by the governing body and approved in accordance with state law.

# 10.0 Property Taxes

## 10.3 TAX RATES BY FUND

Display the rate per $100 of EAV for each fund type (e.g., General, Police Protection, Fire Protection, Capital Projects, Debt Service, enterprise funds). These rates determine how much revenue is generated from the levies.

## 10.4 EXTENDED TAX LEVY

Represents the actual dollar amount of property taxes extended by the county for collection. This figure is based on the tax rate and assessed valuations.

## 10.5 TAXES COLLECTED

Shows the amount of property taxes actually collected by the entity, including a multi-year comparison to highlight trends and collection efficiency.

## 10.6 PERCENT COLLECTED

Reflects the percentage of the tax levy that has been collected in a given year, providing insight into the local government's revenue collection effectiveness.

## 10.7 LEVY ADJUSTMENTS

Under Public Act 102-0519, tax levies receive an automatic increase to account for property tax refunds paid in the prior year for certain types of refunds. These adjustments are added into the General Operating levy and are reported in this section to ensure transparency and accuracy in levy reporting.

# 11.0 Consolidated Year-End Financial Report (CYEFR)

The Consolidated Year-End Financial Report (CYEFR) is a required annual filing under the Illinois Grant Accountability and Transparency Act (GATA) that details the local government's expenditures of state and federal grant funds. It ensures that all grant-related financial activity is properly reported to the State of Illinois. The CYEFR demonstrates the local government's compliance with state reporting.

## 11.1 PURPOSE OF CYEFR

The CYEFR summarizes expenditures made under various state and federal programs.

## 11.2 SUBMISSION

The report is filed electronically through the Illinois Grantee Portal, which centralizes reporting and monitoring for all grant recipients.

# 11.0 Consolidated Year-End Financial Report (CYEFR)

## 11.3 WHAT IS GATA?

The Grant Accountability and Transparency Act (GATA) is an Illinois law designed to improve accountability, transparency, and efficiency in the administration of grants.

- Promotes consistency and fairness across all state-funded programs.
- Reduces administrative burden for both state agencies and grantees.
- Establishes uniform requirements for tracking, auditing, and reporting grant expenditures.

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John Kasperek Co., Inc. created this Financial Statement Review Guide to help administrators, board members, and staff better understand the key components of their audited financial statements.

Your input helps us continue improving the clarity, usefulness, and accessibility of the materials we provide. This brief survey includes just two questions and should take less than one minute to complete.

We appreciate your partnership and the opportunity to serve your community.

# THANK YOU