

Governmental Financial Reporting and COVID-19

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There are a multitude of ways that a global pandemic can affect financial reporting, and the unique nature of governmental organizations (which are intertwined with most facets of our local and regional communities) can further compound and complicate the impacts. Therefore, rather than a deep-dive on a specific financial account or note disclosure, this article focuses more generally on the sections of the annual financial report that will likely include references to the COVID-19 pandemic.

For governments with a June 30 year-end, the time is quickly approaching for the annual closeout procedures and preparation of the year-end financial report. As such, governments should also begin assessing how recent challenges and changes brought about by COVID-19 may impact the annual financial report. The impact of these challenges can vary from significant to trivial depending upon the political, geographical and economic conditions of each government; but, despite these differences, most governments have experienced one or more of the following:

- Current and future reductions in sales tax-based revenues, charges for services, and/or state-shared revenues
- Prolonged accounts receivable collections (e.g. utility receivables)
- Delayed vendor performance, project suspensions and revised completion dates
- Adjustments to the workforce (e.g. layoffs, furloughs, job-reassignments)
- Changes to processes and internal controls for critical operations (e.g. accounts payable, procurement, payroll, IT systems)

If governments prepare an Annual Comprehensive Financial Report, the transmittal letter is likely the first section that will discuss COVID-19 challenges. To the extent practicable, governments should attempt to estimate the economic impact to the government itself, but also to the local economy. Explanations might include the results of local studies, news articles or direct correspondence with major employers/businesses regarding changes in consumer retail activity, vendor inventories, tourism or housing trends. Additionally, governments should include how COVID-19 has disrupted any major initiatives, plans or projects of the local government that could also impact future periods (e.g. delayed construction timelines, or significant purchases and projects that have been discontinued or placed on indefinite holds).

Since comparisons to the prior year are included in the management's discussion and analysis (MD&A), this section will provide a numbers-based illustration of the pandemic's impact on the financial results. Decreases in revenues or payroll costs, or increases in accounts receivables could all be especially evident when compared to the prior year data. Management should again attempt to quantify the impacts of the crisis and include explanations of the financial accounts that were significantly impacted during the reporting year. Typically, the MD&A should focus on results or actions that have actually happened rather than those that might happen.

Depending upon the level of impact to the government, it is also possible that note disclosures need to be adjusted to account for the effects of COVID-19. Below is a short list of common disclosures that could be affected (there are certainly others that could be impacted as well):

- Reductions in certain revenue streams could impact debt covenant disclosures related to required ratios of revenue-to-debt service expenditures;
- Notes related to accounts receivable could be affected if allowance or bad debt policies are adjusted;
- Capital asset disclosures could be impacted if projects are delayed or cancelled; and
- Compensated absences disclosures could be impacted if there are changes in employment levels, leave activity or adjustments to benefits.

Despite the need for transparent information that provides context for the amounts recognized in the financials, keep in mind that note disclosures should be objective and factually-based. Management should avoid disclosures that are subjective assessments or predictions about future periods.

Finally, if a Comprehensive Annual Financial Report is prepared, management should also consider including explanations in the statistical section for significant changes in year-to-year financial information. As examples, management may want to include notes for substantial changes in revenues, expenditures, and fund balances/net position.

As we can all attest, the impact of the pandemic is far-reaching and affects many aspects of our daily lives and communities – to include the government organizations that help maintain the communities in which we live. As we learn more about the pandemic and its

affects, more will be shared about both specific and general considerations that could impact financial reporting for governmental entities.

As the year-end financial reports are prepared, we recommend periodic reviews of the resources provided by the [GASB](#), [GFOA](#), [ASBO](#), and the various other state-based associations, leagues and societies dedicated to the governmental sector. As always, we at HeinfeldMeech are also available to provide additional information and help work through your government's specific situations and challenges.

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