



City of Independence, Ohio

"THE HEART OF CUYAHOGA COUNTY"

6800 BRECKSVILLE ROAD

INDEPENDENCE, OHIO 44131

(216) 524-4131

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, January 7, 2022

Re: Finance Office Updates

2021 Audit

The Finance Office this week already met with the state audit team who will be conducting the 2021 audit.

For the last ten years, the annual audit was completed by an independent public accountant (IPA). However, in Ohio, once an IPA has audited a single public entity for ten years, the State brings that audit back in-house and completes it with staff auditors. After completing the audit in-house for at least a year, if not a few more, the state is then open to having an IPA start completing the annual audit once again.

The Auditor of State's Office (AOS) likely has to employ this hybrid model of utilizing both internal staff and IPA's to complete annual audits as it likely doesn't have nearly enough internal staff to complete audits on each and every county, city, village, township, school district and the many special tax districts (eg. public water and sewer districts, etc.) that exist across the state.

The state audit team will commence this 2021 audit later in January. In addition to them, the Local Government Services (LGS) division of the Auditor of State's Office will also be starting to assist in converting the 2021 cash-basis financial statements to an accrual basis.

In general, cash-basis financial statements recognize revenue when it is received and expenses when they are paid. Accrual-basis financial statements recognize revenue when it is earned and expenses when the commitment to pay occurs – typically when an order is placed.

The preceding paragraph's explanation is related to income statement-type accounts. Balance sheet type statements contain Assets (what's owned), Liabilities (what's owed) and the difference between the two (Equity in the private sector, or Fund Balance in the public sector).

The LGS Division of the Auditor of State's Office will also assist in determining how many liabilities existed as of December 31, 2021, that were not paid for as of year-end.



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2021 Audit Continued

All this is necessary to present financial statements that are GAAP (Generally Accepted Accounting Principles) compliant. GAAP statements are also necessary to be included in the Annual Comprehensive Financial Report (ACFR), which the LGS Division also assists in compiling.

While accrual-based, GAAP compliant financial statements are produced each year, on a monthly and annual basis, the Finance Office typically presents financial information on a Cash Basis.

While it may be necessary to make the various technical calculations and adjusting entries to compile accrual-basis financial statements, most aspects of running an entity are still based on Cash:

- Cash is what's deposited in the city's various bank/investment accounts
- Cash is what's utilized to pay the bills on a daily basis
- Cash is what's utilized to pay employees every two weeks
- Cash is what's used to purchase equipment (capital-type items)
- Cash is what's used to pay for road, sewer, sidewalk and other infrastructure type projects
- Cash is what's used to make principal and interest payments on debt

The "Cash" basis concept can be much more easily understood and used to make informed decisions by non-accountants and non-finance people than the "Accrual" basis concept.

Private sector companies can legally manipulate "Earnings" by various revenue recognition techniques, various inventory valuation options, etc. So although the following statement was meant for the private sector, it also applies to the public sector too, which is why the Finance Office's focus is more on "Cash" than "Accrual" when reporting financial information:

"Earnings" are an opinion. "Cash" is a fact!"

American Rescue Plan Act (ARPA) Funds

Perhaps one of the topics of discussion at the Saturday, January 22 Strategic Planning Session can be the use of the ARPA Funds – one-half of which were received in 2021 and the other half which will be received here in 2022.

The U.S. Department of the Treasury issued a Final Rule yesterday for State and Local Fiscal Recovery Funds. The timing is good to plan now for the application/use of these funds.