

# Common Reporting Errors: From the AUD to the new AFR

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## Training Objectives

- Common AUD Reporting Errors
- Handling Errors in the new AFR
- Proper Accounting for Debt Transactions



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## Types of Errors

- Key Problems:
  - Improper accounting
  - Inconsistency
- Financial edits and validation rules help identify errors.
  - Critical vs. non-critical



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# AUD and AFR Terminology

## Critical and Non-Critical Errors

- AUD
  - Critical edits must be resolved to submit AUD.
  - Non-critical edits do not prevent AUD submittal.
- AFR (Filings for 2023 FYE and on)
  - Critical validation rules must be resolved.
  - Non-critical validation rules require resolution or explanation.

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# Critical Errors - Financials

## AUD and AFR

- Balance Sheet

$$\begin{array}{|l} \text{Assets +} \\ \text{Deferred Outflows} \end{array} = \begin{array}{|l} \text{Liabilities +} \\ \text{Deferred Inflows + Fund Balance} \end{array}$$

- Changes in Fund Balance

$$\begin{array}{|l} \text{Prior year's ending Fund Balance} \\ + \text{Revenues} \\ - \text{Expenditures} \\ = \text{End of year Fund Balance (code 8029)} \end{array} = \begin{array}{|l} \text{Total Fund Balance} \\ \text{reported on Balance Sheet} \end{array}$$

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# Non-Critical Errors

- Edits and Validation Rules
- Misclassification
- Debt Reporting Errors

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## Transfers

### Bank transfers vs. Interfund transfers

- **Bank transfers – exchange of assets**
  - Not to be confused with interfund transfers.
  - Should not be included in revenues and expenditures.
- **Transfers In = Transfers Out**
  - Transfer codes: Revenue (5031) and Expenditures (9901.9 or 9905.9)

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## Due To / Due From

- **AUD edits**
  - Due To/ Due From do not equal
- **AFR validation rules**
  - Due To/ Due From do not equal
  - Due From is 5% or more of Fund Balance

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## Negative Figures

- **AUD – no edits, reviewed by OSC staff**
- **AFR – prevents reporting inappropriate negatives**
  - Exceptions include:
    - Allowance for Receivables (credit balance)
    - Deficit Fund Balance ("Unclassified" code 917)
    - Few other exceptions for specific transactions
- **Example: Reimbursements**
  - Net against expenditure if current year
  - If prior year reimbursement, use revenue code 2701 "Refund of Prior Year's Expenditures"

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## Negative Cash

- **AUD**
  - If a fund is borrowing from another or pooled bank accounts, then report Due To/ Due From to reflect actual cash balances.
- **AFR**
  - Negative balances not allowed for cash asset codes.
  - Code 633 – Due to Financial Institution for Overdrawn Accounts.

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## Budget Reporting

### Appropriated Fund Balance

- The appropriated fund balance reported on the balance sheet should equal the amount reported on the budget summary.
  - **AUD**
    - No edit, part of OSC review
  - **AFR**
    - Non-critical validation rule
    - Validation rule for large budget to actual variance
      - Greater than 20% on revenue or expenditure sides

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## Unclassified and Other Codes

- AUD**
- **Unclassified Revenue 2770**
  - **Online Chart of Accounts Query**
    - Add comment/description
    - Search available codes prior to using 2770
      - <http://we1.osc.state.ny.us/acctlookup/accountlookup.cfm>
- AFR**
- **Several codes require explanation**

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## Deferred Inflows and Outflows of Resources

### Activity related to future periods

- **AUD**
  - No edit, part of OSC review.
- **AFR**
  - Validation rules trigger if greater than 5 % of fund balance and liabilities.

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## Restricted Funds

- **Fund balance subject to externally enforceable legal purpose restrictions**
  - Restricted Fund Balance (800-899) = Restricted Assets (230, 231, 452, 453)
- **AUD**
  - No edits, part of OSC review
- **AFR**
  - Validation rule, non-critical

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## Consolidated Local Street and Highway Improvement Program (CHIPS)

- **CHIPS Revenue is recorded in 3501 – State Aid, Consolidated Highway Aid.**
- **Capital Expenditures are recorded in account 5112.2 Perm Improve Highway, Equip, & Cap Outlay.**

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## Reporting Debt in the Annual Update Document (AUD)

- Supplemental Section
  - Statement of Indebtedness (SOI)
- Several debt edit checks
  - Statement of Indebtedness vs. Fund activity
  - Debt edit exceptions

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## Validation Rules

### Statement of Indebtedness

- AUD Edits
  - Principal paid
  - Newly issued
  - Outstanding balances
- AFR New Validation Rules
  - Interest paid
  - BANs redeemed
- Critical vs. Non-Critical

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## Types of Indebtedness

- Bonds
- Bond Anticipation Notes (BANs)
- Tax Anticipation Notes (TANs)
- Revenue Anticipation Notes (RANs)
- Budget Notes/ Deficiency Notes
- Installment Purchase Contracts (IPCs)
- Current and Advanced Refundings

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## Bond in Governmental Funds

- **Liability in the Schedule of Non-current Governmental Liabilities (W628)**
  - Bond proceeds and related expenditures are shown in the Capital Projects (H) Fund.
  - Principal (9710.6, 9720.6) and interest payments (9710.7, 9720.7) are shown in the related operating fund, or in the Debt Service (V) Fund.

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## Bond in Governmental Funds

- **Bond issued for \$500,000. No proceeds spent.**

H200	Cash	500,000	
H5710	Serial Bonds		500,000
W129	Total Non-current Gov. Liabilities	500,000	
W628	Bonds Payable		500,000

- **Proceeds used to purchase a building.**

H1620.2	Buildings, Equip. and Cap. Outlay	500,000	
H200	Cash		500,000

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## Bond in Governmental Funds

- **\$25,000 Bond Principal and \$10,000 interest paid in General Fund**

A9710.6	Debt Interest, Serial Bonds	25,000	
A9710.7	Debt Interest, Serial Bonds	10,000	
A200	Cash		35,000

- **Liability reported in W Fund**

W628	Bonds Payable	25,000	
W129	Total Non-Current Govt. Liabilities		25,000

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## Bond in Enterprise Funds

- Liability reported on Balance Sheet.
- If proceeds were used to purchase an asset, report as a balance sheet transaction. Net assets are not affected.
  - AFR will no longer trigger an error.
- Acquired asset is expensed using depreciation method over the useful life.



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## Bond in Enterprise Funds

- \$100,000 Bond issued in Enterprise Utility Fund

EE220	Cash from Obligations	100,000	
EE628	Bonds Payable		100,000

- Proceeds are used to acquire the equipment

EE104	Machinery and Equipment	100,000	
EE220	Cash from Obligations		100,000



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## Bonds – Exceptions

- Judgements and Claims
  - e.g., Tax Certiorari
- Deficit Financing
- Bond Refunding



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## Bond Validation Rules

- **Bond Validation Rules:**
  - Bond liabilities on Balance Sheet (623, 628) = Bonds outstanding at end of year on SOI
  - Total Bond principal expenditures in the funds (9710.6, 9720.6, 9700.6) = Bonds redeemed on SOI
  - Total Bond interest expenditures in the funds (9700.7, 9710.7, 9720.7) = Bond Interest Paid on SOI
  - Total Bond revenue (5710, 5720, 5700, 5791, 5792) = Bonds issued on SOI

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## BAN in Governmental Funds

- **Liability in Capital Projects (H) fund**
  - Unless maturity is greater than one year
- **Proceeds and related capital expenditures in the (H) fund**
- **Principal and interest payments in the related operating funds**
- **Account code H5731 BANs Redeemed from Appropriations**

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## BAN in Governmental Funds – Short Term

- **New short-term BAN issued for \$100,000**

H200	Cash	100,000	
H626	BANs Payable		100,000

- **Proceeds used to purchase \$100,000 truck for Highway Department**

H5110.2	Maintenance of Streets, Equip. and Cap. Outlay	100,000	
H200	Cash		100,000

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## BAN in Governmental Funds – Short Term

- Paid principal of \$25,000 and interest of \$2,000 out of Highway (DA) Fund

DA9730.6	Debt Principal, BANs	25,000	
DA9730.7	Debt Interest, BANs	2,000	
DA200	Cash		27,000

### Liability reported in Capital Projects (H) Fund

H626	BANs Payable	25,000	
H5731	BANs Redeemed From Appropriations		25,000

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## BAN in Governmental Funds – Short Term

- \$75,000 BAN is redeemed with proceeds from new bond issuance (Liability in H Fund)

H626	BANs Payable	75,000	
H5710	Serial bonds		75,000
W129	Total Non-current Govt. Liabilities	75,000	
W628	Bonds Payable		75,000

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## BAN in Governmental Funds – Long Term

- New long-term BAN issued for \$100,000

H200	Cash	100,000	
H5730	Bond Anticipation Note		100,000
W129	Total Non-current Govt. Liabilities	100,000	
W626	BANs Payable		100,000

- Liability reported in Capital Projects (H) Fund

H5110.2	Maint. of Streets, Equip. and Cap. Outlay	100,000	
H200	Cash		100,000

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## BAN in Governmental Funds – Long Term

- Paid principal of \$25,000 and interest of \$2,000 out of the Highway (DA) Fund

DA9730.6	Debt Principal, BANs	25,000	
DA9730.7	Debt Interest, BANs	2,000	
DA200	Cash		27,000

- Liability reported in Schedule of Non-current Governmental Liabilities (W)

W626	BANs Payable	25,000	
W129	Total Non-current Gov't Liabilities		25,000

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## BAN in Governmental Funds – Long Term

- \$75,000 BAN is redeemed with proceeds from new bond issuance

W129	Total Non-current Govt. Liabilities	75,000	
W628	Bonds Payable		75,000

W626	BANs Payable	75,000	
W129	Total Non-current Govt. Liabilities		75,000

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## BAN in Enterprise Funds

- Liability reported on balance sheet.
- If proceeds were used to purchase an asset, report as a balance sheet transaction. Net Assets are not affected.
- Acquired asset is expensed using depreciation method over the useful life.

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## BAN in Enterprise Funds

- \$100,000 BAN issued in Enterprise Utility Fund

EE220	Cash From Obligations	100,000	
EE626	BANs Payable		100,000

- Proceeds are used to acquire equipment

EE104	Machinery and Equipment	100,000	
EE220	Cash From Obligations		100,000



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## BAN in Enterprise Funds

- \$100,000 BAN issued in Enterprise Utility Fund

EE626	BANs Payable	25,000	
EE9730.7	Debt Interest, BANs	5,000	
EE220	Cash From Obligations		30,000



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## Bond Anticipation Notes - Exceptions

- Judgements and Claims
  - e.g., Tax Certiorari
- Deficit Financing



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## Debt Edits – BANs

- **BAN edit checks:**
  - BAN liabilities on Balance Sheet (626) = BANs outstanding at year-end on SOI
  - Total BAN principal (9730.6) in funds = BAN principal payments on SOI
  - Total BAN principal (9730.6) = BANs Redeemed from Appropriations (H5731)

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## Installment Purchase Contracts (IPCs)

- **An agreement used to finance the acquisition of an asset.**
  - Accounted for similarly to Bonds in the Governmental and Enterprise funds.
  - Account codes 5785, 9785.6, 9785.7.
  - Capital asset shown in Schedule of Non-current Governmental Assets (K).
  - Liability shown in the Schedule of Non-current Governmental Liabilities (W685).

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## Statement of Indebtedness Summary of AFR Reporting Changes

- Debt issuances reported as single record, even if multiple purposes.
- Interest expenditures reported, but not interest rate.
- Debt limit exemptions not reported.
- Indicate if a debt is associated with proprietary funds.
- BAN renewals.
- Refunded debt separated.
  - Indicate if a refunding is current or advanced.

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## Other Supplemental Schedules

- **Schedule of Time Deposits and Investments**
  - Merged with Bank Reconciliation in AFR.
- **Energy Costs and Consumption Schedule**
  - No longer collected for AFR.

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## Employee and Retiree Benefits Schedule

- **Expenditures for each provided benefit should reconcile against fund activity.**
  - AUD
    - No edits, part of OSC review.
  - AFR
    - Critical validation rule triggers if any reported benefit expenditure is less than reported in funds.

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## Bank Reconciliation Statement

Cash in Bank Reconciliation statement =  
Cash in the funds (200, 210, 223, 230, 231)

- **AUD**
  - Edit, non-critical.
- **AFR**
  - Validation rule, non-critical.
  - Additional validation rules to ensure reliable cash balance reporting.

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## Resources and Contacts

- Accounting and Reporting Manual (ARM):
  - <http://www.osc.state.ny.us/localgov/pubs/arm.pdf>
- AFR Modernization Website:
  - <https://www.osc.state.ny.us/local-government/required-reporting/annual-financial-report-afr-modernization-project>
- Data Management Unit Help Line:
  - 866-321-8503 or 518-408-4934, Option 4



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