

The GASB's New Financial Reporting Model

September 18, 2017

11:30 AM – 12:30 PM

Susannah Baney, Manager, Baker Tilly Virchow Krause LLP

Christina Coyle, Finance Director, Village of Glen Ellyn

Krisztina M. Dommer, Manager, Sikich LLP



Financial Reporting Model Reexamination

- **What:** In December 2016, the Board cleared an Invitation to Comment, the first due process document in the project reexamining the effectiveness of the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6
- **Why:** A review of these standards found that they generally were effective, but that there were aspects that could be significantly improved.
- **When:** Comment deadline was March 31, 2017

Scope of the Invitation to Comment: Governmental Funds

- Recognition approaches (measurement focus and basis of accounting)
- Format of the governmental funds statement of resource flows
- Specific terminology
- Reconciliation to the government-wide financial statements
- For certain recognition approaches, a statement of cash flows

Concerns with Governmental Funds Financial Statements

- Lack of conceptual consistency in recognition of assets and liabilities
- Lack of foundation from which to develop standards for complex transactions
- Some consider it ineffective in conveying that the information is related to fiscal accountability (rather than operational accountability)
 - Focus on financial resources, rather than on economic resources
 - Shorter time perspective than information in government-wide financial statements

Recognition Approaches

- Three possible recognition approaches to replace current financial resources/modified accrual:
 - Near-term financial resources
 - Short-term financial resources
 - Long-term financial resources



Common Characteristics of the Approaches

- Relationship with budgetary reporting
- Focus on financial resources, rather than on economic resources
- Improvements to presentation:
 - Same-page reconciliations to government-wide financial statements
 - Titles and line item totals that indicate the measurement focus
 - Notification on top of statement that the presentation is a short-term view and that the government-wide statements present the long-term view

Messages Conveyed by the Approaches

	Near-Term*	Short-Term	Long-Term
Information related to...	Spending and resources available for spending	Short-term (one year) financial assets and liabilities	Noncapital financial resources on the accrual basis of accounting
Focused on...	Amount available for spending in the next period	Government's one-year operating cycle	Both shorter and longer time perspectives
Financial resources are...	Resources expected to be converted to cash	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity	Cash; claims to cash, goods, and services; consumable goods; equity securities of another entity

* Length of near-term would be specified (for example, 60–90 days after reporting period)

What Would the Approaches Report?

	Near-Term	Short-Term	Long-Term
Assets	Receivable at period-end and normally due to convert to cash within near term; long-term receivables when due	Receivable at period-end and normally due to convert to cash within operating cycle; prepaids & inventories that will be consumed in the next operating cycle	All noncapital assets
Liabilities	Payable at period-end and normally due within near term; principal on debt when due	Payable at period-end and normally due within the next operating cycle	All noncapital-related liabilities

What Would the Approaches Report? (cont.)

	Near-Term	Short-Term	Long-Term
Inflows and outflows of resources	<p>Inflows—newly acquired financial resources that do not result in corresponding liabilities and are available for spending</p> <p>Outflows—spending for the period; principal payments on matured debt and other-than-near-term obligations</p>	As the underlying transaction occurs and cash is collected or paid or due in the subsequent operating cycle	As the underlying transaction occurs, plus inflows and outflows for purchases and sales of capital assets and issuance and repayment of capital-related debt

Other Issues in the Invitation to Comment

- Format of governmental funds resource flows statement
 - Existing format
 - Current and long-term activities format
- Governmental funds cash flows statement
 - Could be needed for short-term and long-term financial resources approaches because the time perspective is not close to cash

TARC Response to Invitation to Comment

- Response can be found on IGFOA website
 - <http://www.igfoa.org/news/entry/193/tarc-responds-to-the-gasb-s-invitation-to-comment-itc-on-the-financial-reporting>
- Response recommended a hybrid approach
 - Long-term focus for basic financial statements
 - Near-term focus for budget schedules in Required Supplementary Information (RSI)

TARC Response to Invitation to Comment

- Other items in TARC Response
 - Fund balance information
 - Entity-wide statements
 - If long-term focus is chosen, are these still necessary
 - Revenue and expenditure/expense terminology
 - Importance of budget to actual comparison
 - No cash flow statements
 - Burden/cost of changing reporting model

Topics Expected to Be Addressed in a Preliminary Views

- Format of the government-wide statement of activities
 - Existing format
 - Traditional format with expenses by function or program
 - Functional or programmatic expenses by natural classification
- Separate presentation of operating and nonoperating revenues and expenses—in proprietary fund and business-type activity (BTA) financial statements

Topics Expected to Be Addressed in a Preliminary Views (cont.)

- Budgetary comparisons
 - Determine method of communication (either as basic financial statements or required supplementary information)
 - Which budget variances, if any, should be required to be presented
- Permanent funds
 - Determine recognition approach and presentation for permanent funds

Topics Expected to Be Addressed in an Exposure Draft

- Extraordinary and special items—explore options for clarifying the guidance for more consistent reporting
- Management's discussion and analysis (MD&A)
 - Enhance the financial statement analysis component
 - Eliminate boilerplate
 - Clarify guidance for presenting currently known facts, decisions, or conditions
- Debt service funds—explore options for providing additional information, either individually or in aggregate in the financial statements or the notes

Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Comment Deadline	March 31, 2017
Public Hearings and User Forums	April and May 2017