The GASB’s New Financial Reporting Model

September 18, 2017
11:30 AM – 12:30 PM

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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

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

* Length of near-term would be specified (for example, 60–90 days after reporting period)
## What Would the Approaches Report?

<table>
<thead>
<tr>
<th></th>
<th>Near-Term</th>
<th>Short-Term</th>
<th>Long-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td><em>Receivable</em> at period-end and <em>normally</em> due to convert to cash within near term; long-term receivables when due</td>
<td><em>Receivable</em> at period-end and <em>normally</em> due to convert to cash within operating cycle; prepaids &amp; inventories that will be consumed in the next operating cycle</td>
<td>All noncapital assets</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td><em>Payable</em> at period-end and <em>normally</em> due within near term; principal on debt when due</td>
<td><em>Payable</em> at period-end and <em>normally</em> due within the next operating cycle</td>
<td>All noncapital-related liabilities</td>
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What Would the Approaches Report? (cont.)

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

• 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

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Pre-Agenda Research Started</td>
<td>April 2013</td>
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<tr>
<td>Added to Current Technical Agenda</td>
<td>September 2015</td>
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<tr>
<td>Invitation to Comment Issued</td>
<td>December 2016</td>
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<tr>
<td>Comment Deadline</td>
<td>March 31, 2017</td>
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<tr>
<td>Public Hearings and User Forums</td>
<td>April and May 2017</td>
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