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GASB Presentation

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Preliminary Views, Financial Reporting Model Improvements

November 7, 2018

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The views expressed in this presentation are those of GASB staff/
Official positions of the GASB are reached only after extensive due process and deliberations.

Today's Agenda

- Project objective and background
- Governmental funds
 - Concerns with current reporting
 - Short-term financial resources measurement focus
 - Alternative views
 - Presentation
- Proprietary fund presentation
- Budgetary comparison reporting



Today's Agenda (Continued)

- Major component unit information
- Schedule of government-wide expenses by natural classification
- Feedback and next steps



Project Objective and Background

- Reexamination of the effectiveness of the financial reporting model—Statements 34, 35, 37, 41, and 46, and Interpretation 6
- Pre-agenda research showed model generally effective, targeted improvements possible
- Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*, issued December 2016
- Preliminary Views, *Financial Reporting Model Improvements*, issued September 2018

Concerns with Governmental Funds Financial Statements

- Lack of effectiveness of governmental fund information
- Lack of conceptual consistency
- Lack of guidance for complex transactions
- Lack of consistency in applying the current financial resources measurement focus and modified accrual basis of accounting



Recognition in Governmental Funds

- Short-term financial resources measurement focus
- Elements from *short-term* transactions recognized as the underlying transaction *occurs*
- Elements from *long-term* transactions recognized when *payments are due*
- Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash



Messages Conveyed by Short-Term Financial Resources Measurement Focus

- Consistency in the reporting of balance sheet elements and financial resource flows elements
- Period-end balances from short-term transactions
- Spending of the period
- Inflows of resources from short-term transactions as they occur and long-term transactions when payment are due
- Fund balance that is available for spending
- Results useful in evaluating budgetary information

Recognition in Governmental Funds

Short-Term Transactions

- **Normally** are **due** to convert to or generate cash or require the use of cash within one year from the inception of the transaction

Long-Term Transactions

- **Normally** are **due** to convert to or require the use of cash beyond one year from the inception of the transaction

An entire class of transactions will either be short-term transactions or long-term transactions. Transactions within classes (for example, investments) are not treated differently.

Recognition in Governmental Funds

Assets

- Assets include those from **short-term transactions** that are receivable at period-end, as well as cash and other financial assets that are available to be converted to cash, or expected to be consumed within the subsequent reporting period
- Assets arising from **long-term transactions** are recognized when payments are due

Liabilities

- Liabilities arising from **short-term transactions** that are payable at year end
- Liabilities arising from **long-term transactions** are recognized when payments become due

Recognition in Governmental Funds

Outflows of Resources

- As **spending** occurs
- Spending from **short-term transactions** (such as use of goods and services and acquisition of capital assets) as the transactions occur
- Spending from **long-term transactions as** payments are due

Inflows of Resources

- Inflows of resources from **short-term transactions** (such as tax levies, grants, and changes in fair value of investments) as the transactions occur
- Inflows of resources arising from **long-term transactions** are recognized when payments become due

Recognition in Governmental Funds

Deferred Outflows of Resources and Deferred Inflows of Resources

- Governed by concept of ***available for spending in a future period***
- Outflows of resources that do not meet the definition of an asset and are inherently related to future spending
- Inflows of resources that do not meet the definition of a liability and can only be used for future spending
- Limited to circumstances identified by the GASB



Recognition Example—Investments in Permanent Fund

Beginning of year balance: \$18,400,000
No maturities or purchase of investments;
Change in fair value of \$100,000;
End of year balance: \$18,500,000

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Investments of \$18,500,000	Inflows of resources of \$100,000
Short-term financial resources	Investments of \$18,500,000	Inflows of resources of \$100,000

Recognition Example—Property Taxes Receivable

End of year balance: \$28,954,754
Property taxes levied before period end for the subsequent fiscal year;
property taxes are due 6 months after period-end

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Taxes receivable of \$28,954,754 and deferred inflow of resources of \$28,954,754	No inflows of resources
Short-term financial resources	Taxes receivable of \$28,954,754 and deferred inflow of resources of \$28,954,754	No inflows of resources

Recognition Example—Other Taxes Receivable

End of year balance: \$13,342,623
Other taxes are associated with the current year;
\$3,342,623 of other taxes are due 3 months after year-end,
\$10,000,000 are due 6 months after year-end

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Taxes receivable of \$13,342,623 and deferred inflow of resources of \$10,000,000	Inflows of resources of \$3,342,623
Short-term financial resources	Taxes receivable of \$13,342,623	Inflows of resources of \$13,342,623

Recognition Example—Prepaid Items

Beginning of year balance: \$5,800
Spending on prepaid items during year: \$60,000
End of year balance: \$13,800

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Prepaid item and nonspendable fund balance of \$13,800	Outflows of resources of \$52,000
Short-term financial resources	Prepaid item of \$13,800	Outflows of resources of \$52,000

Recognition Example—Inventory

Beginning of year balance: \$15,200
 Spending on inventory during year: \$185,000
 End of year balance: \$23,500

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Inventory of and nonspendable fund balance \$23,500 using consumption method	Outflows of resources of \$176,700
Short-term financial resources	Inventory of \$23,500	Outflows of resources of \$176,700

Recognition Example—Special Assessments

Beginning of year balance: \$123,851
Collections during year: \$41,500
End of year balance: \$82,351
\$82,351 scheduled to be collected beyond 3 months after year-end

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Receivable and deferred inflow of resources of \$82,351	Inflow of resources of \$41,500
Short-term financial resources	No amounts recognized	Inflow of resources of \$41,500

Recognition Example—Notes Receivable Related to Lending

Beginning of year balance: \$4,387,776

Collections during year: \$645,000

End of year balance: \$3,742,776

All scheduled to be collected beyond 3 months after period-end

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Notes receivable and nonspendable fund balance of \$3,742,776	No amounts recognized
Short-term financial resources	No amounts recognized	Inflow of resources of \$645,000

Recognition Example—Hedging Derivative Instrument

**Details of instrument: effective hedge, 9 years remaining in term, declining notional amount, associated with capital-related debt
Fair value at end of period: (\$532,882)**

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	No amounts recognized
Short-term financial resources	No amounts recognized	No amounts recognized

Recognition Example—Compensated Absences

Beginning of year balance: \$4,824,057
Earned in the current year: \$146,014 (LIFO flow assumption)
End of year balance: \$4,970,071
Additionally, \$25,000 is due to employees who have separated from service

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Liability of \$25,000	Outflows of resources of \$25,000
Short-term financial resources	Liability of \$25,000	Outflows of resources of \$25,000

Recognition Example—Accrued Interest on Long-Term Debt

Beginning of year balance: \$899,750
Accrued during in the current year: \$2,394,534
Paid during the current year: \$2,448,950
End of year balance: \$845,334

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Debt service expenditures of \$2,448,950
Short-term financial resources	Accrued interest payable of \$845,334	Outflows of resources of \$2,394,534

Recognition Example—Claims Payable

Beginning of year balance: \$1,300,000
Claims incurred during in the current year: \$2,750,000
Paid during the current year: \$1,500,000
End of year balance: \$2,550,000

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Expenditures of \$1,500,000
Short-term financial resources	Claims payable of \$2,550,000	Outflows of resources of \$2,750,000

Recognition Example—Tax Anticipation Notes Payable

Beginning of year balance: \$4,000,000
 Repayments during in the current year: \$4,000,000*
 Borrowings during the current year: \$4,400,000*
 End of year balance: \$4,400,000

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	Tax anticipation note payable of \$4,400,000	No amounts recognized.
Short-term financial resources	Tax anticipation note payable of \$4,400,000	No amounts recognized.

*Borrowings and repayments are disclosed.

Recognition Example—Leases Payable

Beginning of year balance: \$4,722,553
Issuance of leases during in the current year: \$233,200
Paid during the current year: \$1,273,469
End of year balance: \$3,682,284

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Expenditures of \$233,200 for capital outlay, expenditures of \$1,273,469 for debt service, other financing sources of \$233,300
Short-term financial resources	No amounts recognized	Outflows of resources of \$1,273,469 for debt service

Recognition Example—Postemployment Benefits

**Pension plan is funded. Net pension liability is \$826,333 at period-end.
OPEB plan is pay-as-you-go. Net OPEB liability is \$42,785,037 at period-end.**

<u>Recognition Approach</u>	<u>Pension</u>	<u>OPEB</u>
Current financial resources	No liability. No amount normally expected to be liquidated with available expendable resources.	No liability. No amount normally expected to be liquidated with available expendable resources.
Short-term financial resources	No liability. No amounts due.	No liability. No amounts due.

Recognition Example—Bonds Payable

Beginning of year balance: \$33,414,493, all capital-related
Principal paid during the current year: \$8,331,457
End of year balance: \$25,083,036

<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Expenditures of \$8,331,457
Short-term financial resources	No amounts recognized	Outflows of resources of \$8,331,457

Alternative Views

- Modify short-term financial resources
 - Recognize portion of long-term receivables due in the next reporting period (both as asset and inflows of resources)
 - Recognize portion of long-term liabilities due in the next reporting period (both as liability and outflows of resources) with exceptions:
 - Pensions and other postemployment benefits
 - Asset retirement obligations
- Replace concept of *normally* with contractual maturities (or amounts otherwise expected to be paid in cash or other fund financial resources)

Alternative Views (Continued)

- Examples
 - General obligation bond that will be called shortly after period-end using existing resources
 - Long-term debt payment due 1 month after period-end
 - Long-term debt payment due 11 months after period-end
- Government-wide statement of cash flows



Governmental Funds-Presentation

- Current and noncurrent format of resource flows statement
- Current includes all flows other than those that are noncurrent
- Noncurrent resource flows: those related to purchase and disposal of capital assets and issuance and repayment of long-term debt



Governmental Funds-Specific Terminology

Titles

- Short-Term Financial Resources Balance Sheet
- Short-Term Financial Resource Flows

Elements

- Short-term assets
- Short-term liabilities
- Deferred outflows of short-term financial resources
- Deferred inflows of short-term financial resources
- Short-term financial resources fund balances
- Inflows of short-term financial resources for current activities
- Outflows of short-term financial resources for current activities
- Net flows of short-term financial resources for noncurrent activity

Governmental Funds—Specific Terminology

- “This financial statement presents a short-term view of governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.”



ABC Government
Statement of Short-Term Financial Resource Flows
Governmental Funds
Year Ended June 30, 20XX

This financial statement presents a short-term view of the governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
Taxes				
Property tax	\$ 20,322,167	\$ 5,311,156	\$ 2,015,047	\$ 27,648,370
Sales tax	45,034,789	-	4,430,774	49,465,563
Use tax	3,586,753	-	-	3,586,753
Motor fuel tax	-	-	2,889,647	2,889,647
Other taxes	3,975,895	-	2,698,909	6,674,804
Payments in lieu of taxes	2,721,420	-	-	2,721,420
Special assessments	-	-	41,500	41,500
Licenses and permits	1,303,889	-	-	1,303,889
Fees for services	7,052,692	-	202,273	7,254,965
Franchise fees	1,968,522	-	-	1,968,522
Fines and citations	1,476,364	-	-	1,476,364
Intergovernmental	14,595,019	-	6,192,493	20,787,512
Investment earnings	5,829	11,384	119,043	136,256
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	654,482	771,287	5,642,709
Total inflows of short-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478
OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES				
General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627
NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES				
Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Total net flows of short-term financial resources for noncurrent activities	(10,227,406)	(374,372)	(2,314,297)	(12,916,075)
Net change in short-term financial resources fund balances	(4,772,126)	(1,694,210)	3,999,888	(2,466,448)
Short-term financial resources fund balances at beginning of year	9,319,621	9,776,474	27,892,592	46,988,687
Short-term financial resources fund balances at end of year	\$ 4,547,495	\$ 8,082,264	\$ 31,892,480	\$ 44,522,239

Proprietary Fund Financial Statement Presentation

- Continue separate presentation of operating and nonoperating revenues and expenses
- Operating revenues and expenses are those other than nonoperating
- Nonoperating revenues and expenses include:
 - Subsidies received and provided
 - Revenues and expenses related to financing
 - Resources from the disposal of capital assets and inventory
 - Investment income and expenses

Proprietary Fund Financial Statement Presentation

- Subtotal for *operating income (loss) and noncapital subsidies*
- Subsidies are: resources provided by another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided



ABC State University
Statement of Revenues, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,168	\$ 525,791
Grants and contracts	292,962	278,481
Sales and services	271,345	272,244
Other operating revenues	7,868	14,861
Total operating revenues	<u>1,146,343</u>	<u>1,091,377</u>
Operating expenses:		
[Natural or functional expenses]		
Total operating expenses	<u>1,681,544</u>	<u>1,596,059</u>
Income (loss) generated by operations	<u>(535,201)</u>	<u>(504,682)</u>
Noncapital subsidies:		
Appropriations	407,702	394,767
Taxes	8,026	7,660
Grants	42,978	37,567
Gifts	99,395	90,063
Total noncapital subsidies	<u>558,101</u>	<u>530,057</u>
Operating income (loss) and noncapital subsidies	<u>22,900</u>	<u>25,375</u>
Financing and investing activities:		
Investment income	235,820	138,649
Interest expense	(12,412)	(12,853)
Loss from the disposition of capital assets	(2,385)	518
Total financing and investing activities	<u>221,023</u>	<u>126,314</u>
Income before other items	<u>243,923</u>	<u>151,689</u>
Other items:		
Capital contributions	<u>23,231</u>	<u>74,830</u>
Increase (decrease) in net position	267,154	226,519
Net position--beginning	3,061,111	2,834,592
Net position--ending	<u>\$ 3,328,265</u>	<u>\$ 3,061,111</u>

Budgetary Comparison Information

- Presented in required supplementary information
 - Consistent with conceptual framework on methods of communication
- Required variance presentations
 - Final budget and actual amounts
 - Original and final budget



Major Component Unit Information

- If feasible, present in separate columns on the reporting entity's government-wide financial statements
- If not feasible, present in as combining financial statements after the fund financial statements (included in basic financial statements)
- The existing alternative to present condensed major component unit financial statements in the notes to financial statements would be eliminated



Government-Wide Expenses by Natural Classification

- Applicable to governments presenting a CAFR
- Presented as supplementary information
- Governmental activities by program or function (and natural classification)
- Business-type activities by different identifiable activity (and natural classification)
- No change to government-wide statement of activities

City of ABC
Schedule of Governmental Activities Expenses by Function and Natural Classification
for the Year Ended June 30, 20XX

Natural Classification	General Government	Public Health and Safety	Highway and Streets	Culture and Recreation	Economic Development	Interest	Total
Awards and grants	\$ XX,XXX	\$ XX,XXX	\$ XX,XXX	\$ XXX,XXX	\$ XX,XXX	\$ -	\$ XXX,XXX
Contractual services	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Depreciation	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	-	XXX,XXX
Interest	-	-	-	-	-	XX,XXX	XX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

City of ABC
Schedule of Business-Type Activities Expenses by Different Identifiable Activity and Natural Classification
for the Year Ended June 30, 20XX

Natural Classification	Water	Sewer	Motor Vehicle Parking	Cemetery	Total
Contractual services	\$ XX,XXX	\$ XX,XXX	XX,XXX	\$ XX,XXX	\$ XXX,XXX
Other services and supplies	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Personnel and benefits	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Depreciation and amortization	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Interest	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XXX,XXX
Total	\$ XXX,XXX	\$ XXX,XXX	XXX,XXX	\$ XXX,XXX	\$ XXX,XXX

Small Government Considerations

- Are there opportunities to offer practical considerations for small governments without undermining the fundamentals of the model?
 - Recognition in governmental funds
 - Presentation of governmental funds
 - Presentation of proprietary funds
 - Budgetary comparison information
 - Major component unit information
 - Schedule of government-wide expenses by natural classification

- Continue to consider in future

How to Provide Feedback

- Comment letter deadline February 15, 2019
- Public hearings
 - March 5, 2019 in Rosemont, IL (near O'Hare airport)
 - March 12, 2019 in Atlanta, GA
 - March 14, 2019 in Flushing, NY (near LaGuardia airport)
- User forums
 - March 6, 2019 in Rosemont, IL
 - March 14, 2019 in Flushing, NY



Next Steps

- Additional issues for Exposure Draft
 - Extraordinary and special items
 - Management's discussion and analysis (MD&A)
 - Debt service funds
- Target issuance of Exposure Draft: June 2020



Questions?

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