

# PROPOSED FINANCIAL REPORTING MODEL IMPROVEMENT PROJECT



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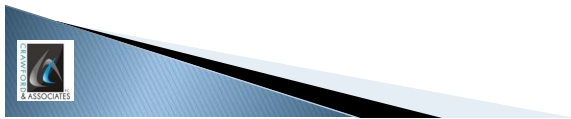
## What We will Cover

- Conceptual Framework Recognition Exposure Draft, including tentative decisions made by the Board during redeliberations of the feedback from the Exposure Draft
- Financial Statement Model Improvements Exposure Draft, including tentative decisions made by the Board during redeliberations of the feedback from the Exposure Draft
- Examples



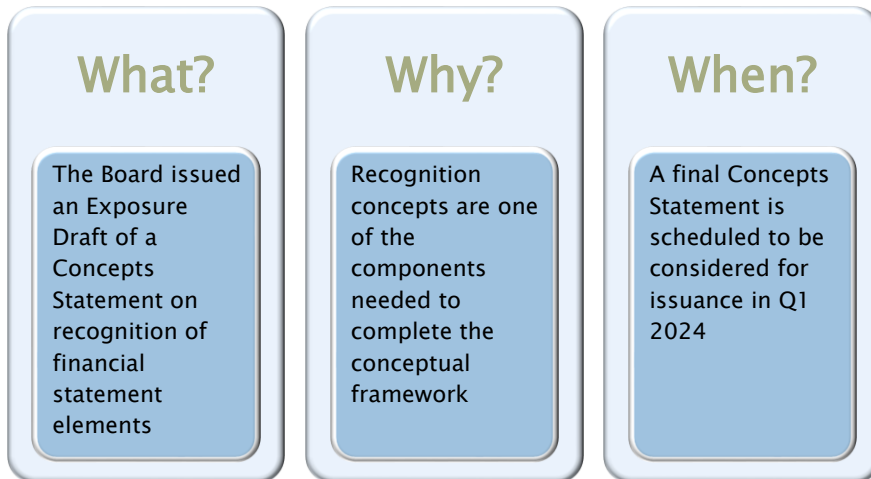
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## Conceptual Framework: Recognition



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### Exposure Draft: *Recognition of Elements of Financial Statements*

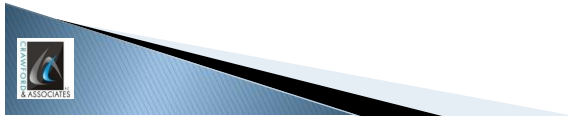


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## Recognition Concepts

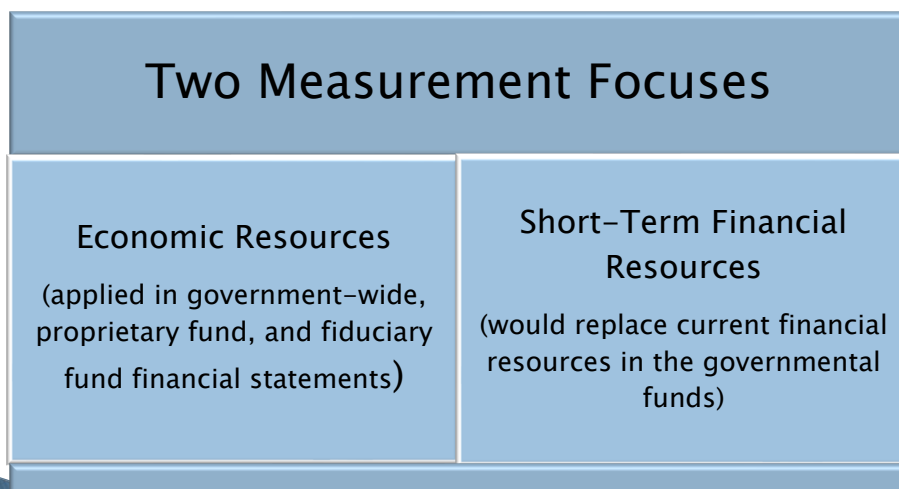
The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.



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## Tentative Decision: Recognition Framework



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## Tentative Decisions: Recognition Framework (continued)



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## Project Timeline

Preliminary Views Issued	September 2018
Redeliberations Began	June 2019
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Concepts Statement Scheduled to Be Considered for Issuance	March 2024



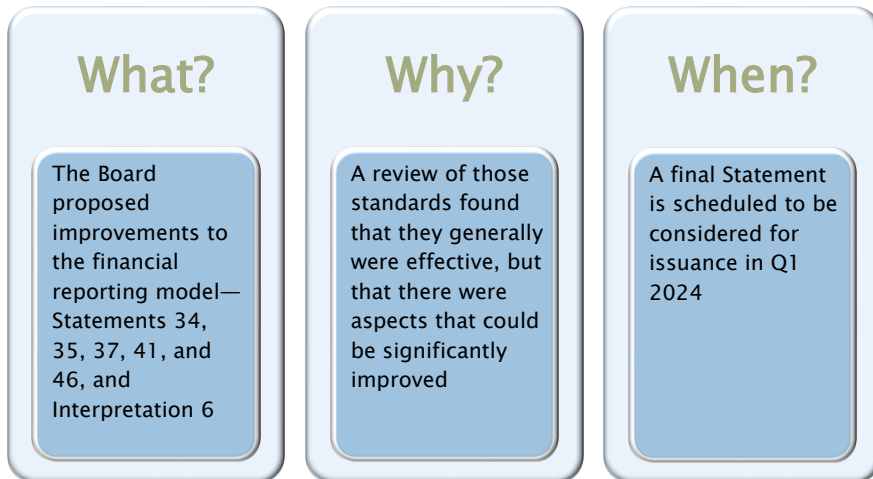
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## Financial Reporting Model Reexamination



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## *Financial Reporting Model Improvements*



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# Project Activities

## Pre-agenda research

- Roundtables
- Surveys
- Literature review
- Archival
- Interviews

Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*, issued December 2016

Preliminary Views, *Financial Reporting Model Improvements*, issued September 2018

Exposure Draft, *Financial Reporting Model Improvements*, issued June 2020

Public hearings and user forums, March - April 2021



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# Overview of the Proposals

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Measurement focus and basis of accounting for the governmental funds

---

Format of governmental funds financial statements

---

Clarification of operating and nonoperating in proprietary funds

---

Presentation of proprietary funds statement of revenues, expenses, and changes in fund net position

---

Management's discussion and analysis

---

Budgetary comparisons

---

Major component unit presentations

---

Unusual or infrequent items



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## Concerns with Governmental Fund 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



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## Key Factors in Recognition

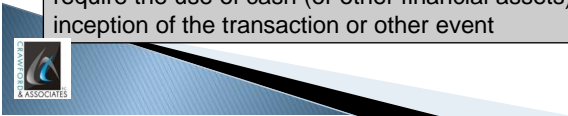
Key Recognition Factors	
<b>Recognition Terms</b>	The applicable payment terms of the transaction or other event that are used in recognition
<b>Recognition Method</b>	How transactions will be recognized; begins with determining whether a transaction or other event is short term or long term
<b>Recognition Period</b>	Period associated with the recognized assets and liabilities



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## Tentative Decisions: Key Factors in Recognition for the Short-Term Financial Resources Measurement Focus and **Modified** Accrual Basis of Accounting

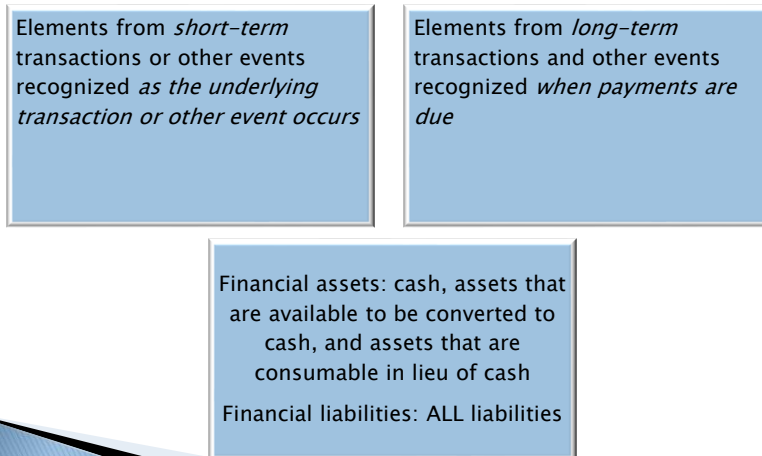
Key Recognition Factors	
<b>Recognition Terms</b>	<i>Binding arrangement</i> —The terms of the binding arrangement or estimated payments if there is no binding arrangement or the binding arrangement does not include specific payment terms.
<b>Recognition Method</b>	<ul style="list-style-type: none"> <li>• Items arising from short-term transactions or other events—recognize <i>when incurred</i></li> <li>• Items arising from long-term transactions or other events—recognize <i>when due</i> <ul style="list-style-type: none"> <li>• Based on the inception date of the transaction</li> </ul> </li> </ul>
<b>Recognition Period</b>	<i>One-year</i> —Will be converted to or generate cash (or other financial assets) or require the use of cash (or other financial assets) within one-year from the inception of the transaction or other event



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## Tentative Decisions: Recognition in Governmental Funds

### Short-term financial resources measurement focus and **modified** accrual basis of accounting



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## Tentative Decisions: Recognition in Governmental Funds (cont.)

Short-Term Transactions	Long-Term Transactions
Period from inception to conclusion is one year or less	Period from inception to conclusion is more than one year

**Inception** generally is when a party to the transaction takes an action that results in the initial recognition of an asset or liability

**Conclusion** generally is when the final payment of cash or other financial assets is due according to the terms of the binding arrangement (or estimated payments)



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## Reclassification – Board Tentative Decisions

- Reclassification of a transaction or other event **should be made** if amendments are made to the terms or conditions of the original binding arrangement that warrant such a change from short-term to long-term or vice versa **prior to the fiscal year-end** based on the concepts for the short-term method.
- Reclassification of a transaction or other event as either short-term or long-term for amendments made subsequent to the fiscal year-end but prior to the issuance of the financial statements should not be allowed.



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## Recognition in Governmental Funds

### Assets:

- ▶ Assets include those from short-term transactions as they occur
- ▶ Assets arising from **long-term transactions** are recognized when payments are due
- ▶ Includes:
  - Investments
  - Prepaid items
  - Inventory

### Liabilities:

- ▶ Liabilities arising from **short-term transactions** that are payable at year end as they occur
- ▶ Liabilities arising from **long-term transactions** are recognized when payments become due
- ▶ Exception in ED for **long-term debt issued for short-term purposes** being recognized as a short-term transaction has tentatively been removed as an application exception – presentation exception in the flows statement instead



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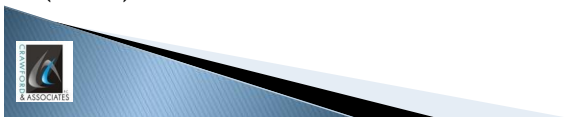
## Recognition in Governmental Funds

### 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 from **long-term transactions** as payments are due
- ▶ Includes on-behalf payments for fringe benefits and salaries and direct vendor financing (leases)

### Outflows of Resources:

- ▶ Outflows of resources from **short-term transactions** (such as use of goods and services and acquisition of capital assets) as the transactions occur
- ▶ Outflows of resources from **long-term transactions** are recognized when payments become due
- ▶ Includes on-behalf payments for fringe benefits and salaries and direct vendor financing (leases)

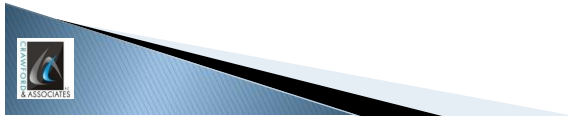


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## Recognition in Governmental Funds

### Deferred Outflows of Resources and Deferred Inflows of Resources:

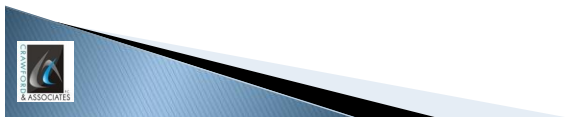
- Recognized for both short-term and long-term transactions and other events when the outflow (or inflow) of resources is applicable to a future reporting period
- Limited to circumstances identified by the GASB
- Example: a tax imposed for a subsequent reporting period



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## Recognition Example – Investments in Permanent Fund

Jan 1, 20XX balance: \$18,400,000 No maturities or purchases of investments Change in fair value of \$100,000 Dec 31, 20XX balance: \$18,500,000		
Recognition Approach	Balance Sheet	Resource Flows Statement
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

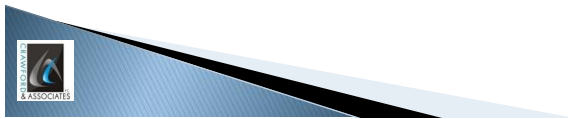


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## Recognition Example – Property Taxes

Jan 1, 20XX balance: \$5,000  
 \$10,500,00 of property taxes are imposed Jan 1, half due Feb 1, half due Aug  
 \$10,485,000 collected during the year  
 Dec 31, 20XX balance: \$20,000

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources	Taxes receivable of \$20,000	Inflows of resources of \$10,500,000
Short-term financial resources	Taxes receivable of \$20,000	Inflows of resources of \$10,500,000



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## Recognition Example – Income Taxes

Jan 1, 20XX receivable balances: \$5,000 due Jan 15, \$8,000 due Apr 15  
 \$400,000 of income taxes collected during the year  
 Dec 31, 20XX receivable balances: \$7,000 due Jan 15, \$10,000 due Apr 15

Recognition Approach	Balance Sheet	Resource Flows Statement
Current financial resources: period of availability of 60 days	Taxes receivable of \$17,000; Deferred inflow of resources \$10,000	Inflows of resources of \$402,000 (\$400,000 – \$5,000 + \$7,000)
Short-term financial resources	Taxes receivable of \$17,000	Inflows of resources of \$404,000 (\$400,000 – \$5,000 – \$8,000 + \$7,000 + \$10,000)



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## Recognition Example – Prepaid Items

Jan 1, 20XX balance: \$5,800 Spending on prepaid items during year: \$60,000 Dec 31, 20XX balance: \$13,800		
Recognition Approach	Balance Sheet	Resource Flows Statement
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

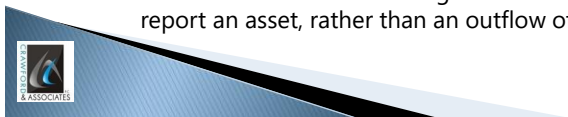


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## Recognition Example – Notes Receivable Related to Lending

Jan 1, 20XX balance: \$4,387,776 Collected/matured during year: \$645,000 Dec 31, 20XX balance: \$3,742,776		
Recognition Approach	Balance Sheet	Resource Flows Statement
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

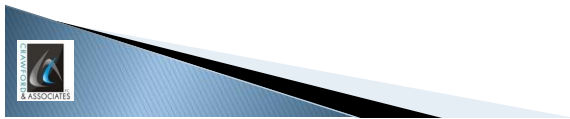
Existing guidance does not address how to report notes receivables related to lending. This example assumes a choice to report an asset, rather than an outflow of resources, was made.



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## Recognition Example – Accrued Interest on Long-Term Debt

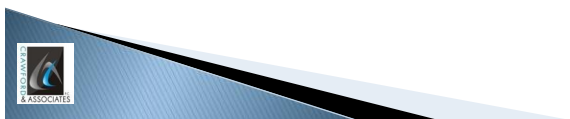
Jan 1, 20XX balance: \$899,750 Accrued during in the current year: \$2,394,534 Paid during the current year: \$2,448,950 Dec 31, 20XX balance: \$845,334		
<u>Recognition Approach</u>	<u>Balance Sheet</u>	<u>Resource Flows Statement</u>
Current financial resources	No amounts recognized	Debt service expenditures of \$2,448,950
Short-term financial resources	No amounts recognized	Outflows of resources of \$2,448,950



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## Recognition Example – Postemployment Benefits

Pension plan is funded. Net pension liability is \$826,333 at Dec 31, 20XX. OPEB plan is pay-as-you-go. Net OPEB liability is \$42,785,037 at Dec 31, 20XX.		
<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.



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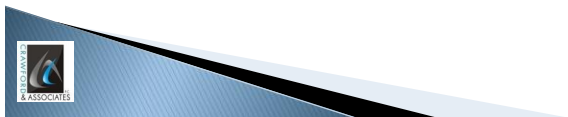
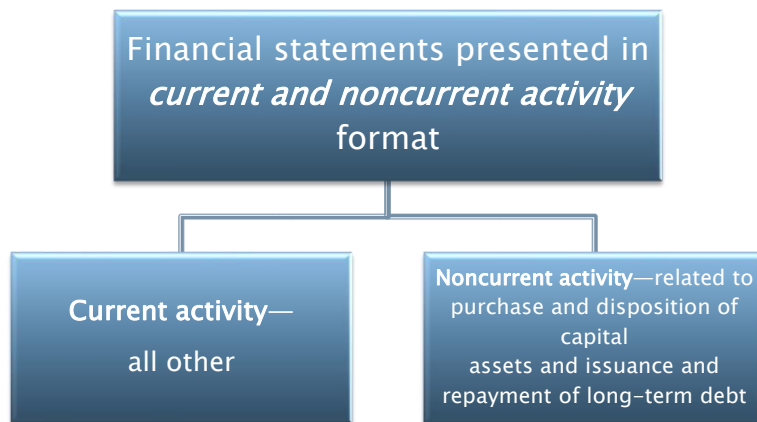
## Recognition Example – Bonds Payable

Jan 1, 20XX balance: \$33,414,493 Principal paid during the current year: \$8,331,457 Dec 31, 20XX balance: \$25,083,036		
Recognition Approach	Balance Sheet	Resource Flows Statement
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



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## Tentative Decisions: Presentation of Governmental Funds



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## Tentative Decisions: Proposed Statement of Short-Term Financial Resource Flows

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
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	3,985,753	-	-	3,985,753
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	4,219,940	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
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
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
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES</b>				
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)	(1,346,407)	(1,459,909)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
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

Current and Noncurrent Activity Format

## Reconciliations Between Governmental Fund and Government-wide Financial Statements

- Board is considering whether there should be a standardized structure required for the reconciliations?
- Board Tentative Decisions that there should not be a:
  - Standardized terminology
  - Standardized communication method (same page or different page)





## Proposals: Management's discussion and analysis

### PREPARERS: Remember Users are Different

- Users have different levels of knowledge and sophistication.
- Continue to provide objective and readable explanations and interpretations that users can understand.



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## Proposals: Management's discussion and analysis (continued)

### Telling Your Story

- Focus on the primary government.
- Discuss comparative results of current year and prior year, focusing on current year
- Avoid unnecessary duplication and "boilerplate" discussions.



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## Proposals: Management's discussion and analysis (continued)

### Do Some House-Keeping

- Move budgetary analysis and discussion of infrastructure assets modified approach (if applicable) to the relevant parts of RSI
- Use five required sections –
  1. Introduction
  2. Financial summary
  3. Detailed analysis
  4. Significant capital assets and long-term debt activity
  5. Currently known facts, decisions, or conditions



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## Proposals: Management's discussion and analysis (continued)

### EXAMPLES

#### Currently known facts, decisions, or conditions

- Trends in relevant economic and demographic data
- Information related to the subsequent year's budget
- Information about certain actions the government has taken after the end of the reporting period
- Information related to actions other parties have taken that will affect the government



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## Proposals: Management's discussion and analysis (continued)

### Board Tentative Decisions

- Reference to the SSAP not should not be required
- Presenting an analysis of balances and transactions of nonmajor funds in the aggregate should not be required
- discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund should be presented as notes to budgetary comparison information, which is proposed to be presented as RSI
- Information about infrastructure assets accounted for using the modified approach should be removed



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## Other Proposals

### Major component unit presentations

- If it is not feasible to present major component unit financial statements in separate columns in the reporting entity's financial statements, the financial statements of the major component units would be presented in the reporting entity's basic financial statements as combining financial statements



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## Other Proposals (continued)

### Unusual or Infrequent Items

- Separately present inflows and outflows of resources that are unusual in nature and/or infrequent in occurrence (replacing extraordinary and special items)
- Disclose additional information about those inflows and outflows, including the programs, functions, or identifiable activities to which they are related and whether they are within the control of management

Board is currently considering whether the concept of magnitude should somehow be incorporated into the determination of unusual or infrequent



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## Proposals: Proprietary Funds

- Statement of Revenues, Expenses, and Changes in Fund Net Position
  - Continue separate presentation of operating and nonoperating revenues and expenses

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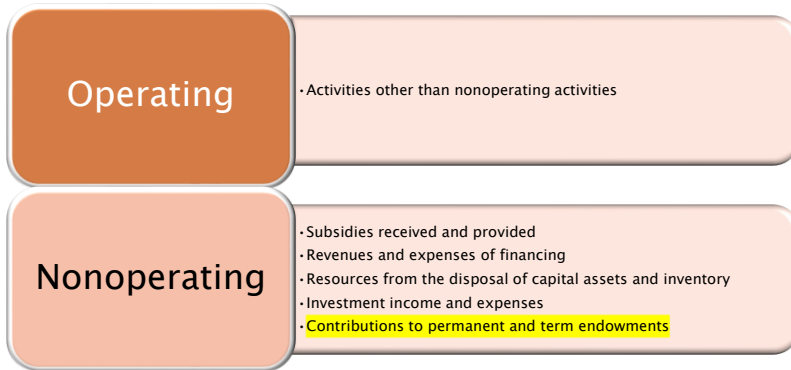
- New definition/description proposed for operating and nonoperating revenues and expenses to increase comparability in reporting



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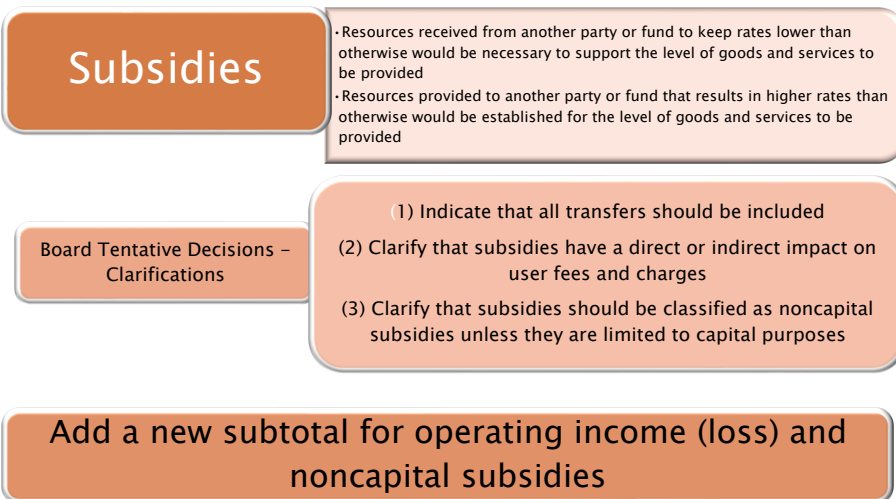
# Proposals: Proprietary Funds

Separate presentation of operating and nonoperating revenues and expenses



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# Proposals: Proprietary Funds (cont.)



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	2016	2015
Operating revenues:		
Tuition and fees (net of discounts)	\$ 574,188	\$ 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	<u>(2,385)</u>	<u>518</u>
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	23,231	74,830
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>

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## Proposals: Budgetary Comparison Information

### Budgetary Comparisons

- Would be presented as required supplementary information (no option for basic statements)
- Required variances would be final-budget-to-actual and original-budget-to-final-budget

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# Proposed Effective Dates

Based on total annual revenues in fiscal year beginning after June 15, 2022

<b>\$75 million or more</b>	<b>Less than \$75 million</b>
Apply in fiscal years beginning after June 15, 2024	Apply in fiscal years beginning after June 15, 2025



# Total Annual Revenues

- Include**
  - All governmental activity revenues
  - All business-type activity revenues
- Exclude**
  - Extraordinary and special items
- Governments engaged only in fiduciary activities should use total annual additions.**
- Component units should implement in the same year as their primary government.**



## Proposals: Transition Provisions

<p>Retroactively, by restating financial statements, if practicable, for all prior periods presented</p> <p>Disclose the nature of the restatement and its effect</p>	
<p>If not practicable</p> <p>Restate beginning fund balance for the earliest period presented for the cumulative effect of application, if any</p> <p>Disclose reason for not restating</p>	<p>Not required to</p> <p>Restate prior periods for purposes of comparative data for MD&amp;A</p> <p>Encouraged to</p> <p>Provide comparative analysis of key elements of activities (governmental and business-type) in MD&amp;A</p>

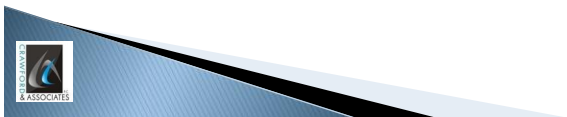
Statistical section provisions— may be applied prospectively



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## Project Timeline

Pre-Agenda Research Started	April 2013
Added to Current Technical Agenda	September 2015
Invitation to Comment Issued	December 2016
Preliminary Views Issued	September 2018
Exposure Draft Approved	June 2020
Redeliberations Began	May 2021
Final Statement Scheduled to Be Considered for Issuance	March 2024



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