

# BUDGETING AND FINANCIAL REPORTING I

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# **BUDGETING & FINANCIAL REPORTING I**

## **AGENDA**

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- **Governmental Accounting & Financial Reporting Principles (GAFR)**
  - Governmental Accounting – Recognition and Measurement
  - Budgetary Accounting
  - Basic Financial Statements
  - GASB Standards/Changes in Standards to follow/support GAFR
- **Annual Comprehensive Financial Reporting**
- **Government Accounting Standards Board (GASB)**
  - Recent GASB Pronouncements that could affect LEA Local Education Agencies
  - Financial Reporting Model Status/Review of GASB 34/54/65

# Common Acronyms in Presentation

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- ❑ **GASB** – Governmental Accounting Standards Board
- ❑ **FASB** – Financial Accounting Standards Board
- ❑ **GAFR** – Governmental Accounting and Financial Reporting Principles
- ❑ **GAAP** – Generally Accepted Accounting Principles
- ❑ **SLG** – State and Local Governments
- ❑ **CY** – Current Year
- ❑ **FY** – Fiscal Year
- ❑ **SEA** – Service Efforts and Accomplishments

# Primary Sources of Generally Accepted Accounting Principles (GAAP)

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1973

Financial Accounting Standards Board (FASB)

1984

Governmental Accounting Standards Board (GASB)

1999

Federal Accounting Standards Advisory Board (FASAB)

2008

International Accounting Standards Board (IASB)



# Difference of Public Opinion

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**CITIZENS - -**

**“Government should operate like a business”**

**PUBLIC EMPLOYEES –**

**“Government is not business. What works for business does not work for government.”**

# Government vs. Business

## Why can't we all follow same GAAP?

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**SLG GAAP  $\neq$  For Profit GAAP**

- **Accountability emphasis**
- **Organizational purpose**
- **Sources of revenue**
- **Potential for longevity**
- **Relationship with stakeholders**
- **Role of the budget**

# GASB – [www.gasb.org](http://www.gasb.org)

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- May 1986 - American Institute of Certified Public Accountants (AICPA) has given GASB the “authority to establish accounting principles” for SLG
- GASB Board - Appointed by FAF Board of Trustees
  - Seven board members appointed for five-year term; ten-year maximum
- Since 1984, GASB has issued 101 standards with GASB 101 issued in June 2022
- Some of the GASB agenda items that would affect LEAs as of February 2023 (<https://gasb.org/preagenda/research>)
  - Financial Reporting Model Improvements
  - Conceptual Framework – Recognition
  - Revenue and Expense Recognition
  - Going Concern Uncertainties and Severe Financial Stress

# **GASB Mission Statement (Rules of Procedure)**

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- To establish and improve standards of state and local government accounting and financial reporting that will:
  - Provide useful information for users of financial reports
  - Guide and educate the public, including issuers, auditors, and users of those financial reports
- Mission accomplished through a comprehensive and independent process
  - Encourages broad participation
  - Considers all stakeholder views
  - Subject to oversight by Financial Accounting Foundation

# Uses and Users of Governmental Accounting and Financial Reporting

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- Accounting and financial reporting standards are essential to the efficient and effective functioning of our democratic system of government
  - Financial reporting plays a major role in fulfilling government's duty to be **publicly accountable**
  - Financial reporting by state and local governments is used to assess that accountability and to make **economic, social, and political decisions**

# Uses and Users of Governmental Accounting and Financial Reporting

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- The primary users of state and local government financial reports are those:
  - To whom government is primarily accountable –**citizens**
  - Who directly represent the citizens – **legislative and oversight bodies**
  - Who finance government or who participate in the financing process – **taxpayers, other governments, investors, creditors, underwriters, and analysts.**
- Government administrators are also users of financial reports

# How GASB Accomplishes Its Mission

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- Issue high-quality standards that improve usefulness of financial reports
  - Based on needs of users & on the underlying concepts in GASB's conceptual framework
- Keep standards current to reflect changes in governmental environment
- Provide implementation guidance
- Consider improvements in accounting and financial reporting
- Improve nature and purposes of information contained in financial reports

# GASB Guiding Principles

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- To be objective and neutral in its decision making
- To weigh carefully the views of stakeholders in developing standards and concepts
- To establish standards only when the expected benefits justify the perceived costs
- Balance desire to minimize disruption of accounting and financial reporting processes with need for information to communicate effectively to users



# GASB Standards-Setting Process

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# Financial Statement Users

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**GASB** has identified three groups as the **primary users** of external SLG financial reports:

1. Citizenry
2. Legislative and oversight bodies
3. Investors and creditors

**National Center for Education Statistics** (2019) considers users of school finance information to be from 4 groups:

1. General public
2. Legislative and oversight bodies
3. Education researchers
4. Investors and creditors

# Objectives of Financial Reporting

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## □ Accountability

- Paramount objective from which all other objectives flow
- Public accountability is based on the belief that taxpayer has a **“right to know”**
  - A right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives
- GASB asserts accountability requires governments to **answer to the citizenry**
- Justify the raising of public resources & purposes for which they are used

# Objectives of Financial Reporting

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## □ **Need for Accountability**

- ▣ Taxpayers are involuntary resource providers
- ▣ Amount of taxes paid generally depends on value of property owned, income earned; seldom bears proportional relationship to value of services received
- ▣ No “exchange” relationship between resources provided and services received
- ▣ Governments often have a monopoly on services provided to public; lack of competitive marketplace – difficult to measure efficiency
- ▣ Difficult to measure optimal quantity or quality for many service provided (e.g. What is reasonable student-teacher ratio?)

# Objectives of Financial Reporting

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- **Assist in fulfilling duty to be publicly accountable and enable users to assess accountability by:**
  1. Provide information to determine whether CY revenues were sufficient to pay for CY services – **Interperiod Equity**
  2. Demonstrate whether resources were obtained and used in accordance with the entity's **Legally Adopted Budget**
    - Demonstrate compliance with all finance-related legal or contractual requirements.
  3. Provide information to assist users in assessing the **Service, Efforts, Costs & Accomplishments (SEA)**
    - Results achieved through the use of resources provided
    - Helps users assess: **Economy, Efficiency & Effectiveness**

# Objectives of Financial Reporting

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- **Assist users in evaluating operating results for the year**
  - ▣ Sources and uses of financial resources
  - ▣ How govt financed its activities and met cash requirements
  - ▣ Determine whether financial position improved or deteriorated
- **Assist users in assessing the level of services that can be provided and ability to meet obligations**
  - ▣ Financial position and condition
  - ▣ Physical and other nonfinancial resources with useful lives beyond current year; service potential
  - ▣ Disclose legal or contractual restrictions on resources & risk of potential loss of resources

# **GASB Codification Section 1100 – 13 GAFR Principles**

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## **Adoption of the principles will:**

- provide management with financial information that presents fairly and with full disclosure the financial position and results of financial operations;
- provide reliable financial information as a basis for program evaluation and budgetary planning;
- give the entity's financial statements greater credibility with four principal groups: the general public, investors, governmental units and educational and research organizations; whose interests and
- decisions are dependent upon the financial information produced by the entity's accounting system; and
- enhance the comparability of financial reporting.

# **13 Governmental Accounting & Financial Reporting Principles (GAFR)**

## **GASB Codification Section 1100-1800;2200 (NCGA-1)**

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- 1. Accounting and Reporting Capabilities**
- 2. Fund Accounting Systems**
- 3. Type of Funds**
- 4. Number of Funds**
- 5. Reporting Fixed Assets**
- 6. Valuation of Fixed Assets**
- 7. Depreciation of Fixed Assets**
- 8. Reporting Long-Term Liabilities**
- 9. Measurement Focus and Basis of Accounting in the Basic Financial Statements**
- 10. Budgeting, Budgetary Control, and Budgetary Reporting**
- 11. Transfer, Revenue, Expenditure, and Expense Account Classification**
- 12. Common Terminology and Classification**
- 13. Interim and Annual Financial Reports**



# GAFR PRINCIPLE #1

## ACCOUNTING AND REPORTING CAPABILITIES

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A governmental accounting system must make it **possible to do both:**

- present fairly and with full disclosure the financial position and results of financial operations of the funds and activities of the government in conformity with generally accepted accounting principles (**GAAP**); **AND**
- determine and demonstrate compliance with finance-related legal and contractual provisions

# Must meet both objectives:

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- The government environment sometimes has legal and contractual provisions that conflict with GAAP
- Accounting system may be maintained on a legal compliance basis
  - But should include sufficient additional reports to permit GAAP-based reporting
- Financial statements should be prepared in conformity with GAAP; particularly if SLG want auditors to express unqualified opinions
- Government should present additional schedules and narratives to report its legal compliance responsibilities and accountabilities

# **GAFR PRINCIPLE #1**

## **ACCOUNTING AND REPORTING CAPABILITIES**

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- GAAP Hierarchy – GASB 76
- Environmental Assumptions
- Implementation Principles – GASB 63/65 and Concept 4
- Exception Principles

# GAAP Hierarchy for LEAs – GASB 76

## Effective for periods after June 15, 2015

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| Category | Sources  | Due Process  |
|----------|--|--|
| <b>A</b> | <b>GASB Statements</b>   | Formally approved by <b>GASB Board</b> for the purpose of creating, amending, superseding, or interpreting standards <b>AND</b> exposed for a period of public comment |
| <b>B</b> | <b>GASB Technical Bulletins and Implementation Guides; AICPA Literature specifically cleared by GASB</b> | <b>Cleared by GASB Board</b> , specifically made applicable to state and local government entities <b>AND</b> exposed for a period of public comment                   |

# **GASB 76 – Sources of Non-Authoritative Literature**

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## **Sources of non-authoritative accounting literature include:**

- GASB Concepts Statements;
- Pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB;
- Practices that are widely recognized and prevalent in state and local government;
- Literature of other professional associations or regulatory agencies; and
- Accounting textbooks, handbooks, and articles.

# Environmental Assumptions

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- Entity Principle (Fund and/or Account Group)
- Time Period/Periodicity (Fiscal Year)
- Going Concern (Expected life of the entity)
- Monetary Unit (Stable Dollar)

# Implementation Principles

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- Cost
- Revenue Recognition
- Expense/Expenditure Recognition
- Objectivity
- Consistency
- Financial Reporting/Disclosure

# Exception Principles

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- Cost/Benefit
- Materiality
- Conservatism
- Industry Standards
- Substance over Form



# Concept 4/GASB 63/65

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- Concept 4 – Elements of Financial Statements
- GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position [6/15/11]
- GASB 65 – Items Formerly Reported as Assets and Liabilities [12/15/12]
  - **Net Position = Assets + Def. Outflows – Liabilities – Def. Inflows**

# Definitions According to Concepts Statement No. 4

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**Assets** – resources with present service capacity that the government presently controls

**Deferred Outflow** – consumption of net position by the government that is applicable to a future reporting period

- Has a positive effect on net position
- Reported in separate section following Assets
- Example would be costs related to debt refunding

**Liabilities** – present obligations to sacrifice resources that the government has little or no discretion to avoid

**Deferred Inflow** – an acquisition of net position by the government that is applicable to a future reporting period

- Has a negative effect on net position
- Reported in separate section following Liabilities

# GASB 63/65

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- GASB 63 - Changed statement name to “Statement of Net Position” from “Statement of Net Assets”
- Net Position is the residual of the accounting equation (Assets + Deferred Outflows – Liabilities – Deferred Inflows = Net Position)
- Net Position on face of statement is:
  - Net Investment in Capital Assets
  - Restricted Net Position
  - Unrestricted Net Position
    - The calculation of *net investment in capital assets* is similar to the prior calculation of investment in capital assets, net of related debt; however, with the implementation of GASB Statement No. 63, the **deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.**

# GAFR PRINCIPLE #2

## FUND ACCOUNTING SYSTEMS

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Governmental accounting systems should be **organized** and **operated** on a **fund basis**.

- Concept of a fund is **fundamental to government accounting** and reporting
- GASB recommends that governments establish only the **minimum number of funds needed** to comply with legal requirements and to provide sound fiscal management
- Must find a **happy medium** between sound fiscal management and follow contractual and legal provisions in order to continue receiving resources
- Each fund has its own accounting equation; its own accounting records; can have its own financial statements
- Each fund carries on specific activities or attains certain objectives in accordance with special regulations, restrictions or limitations

# GAFR PRINCIPLE #2

## FUND ACCOUNTING SYSTEMS

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A **fund** is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources (also non-financial resources if proprietary or trust funds), together with all related liabilities and residual equities or balances, and changes therein

**Segregated** for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations

# **GAFR PRINCIPLE #3**

## **CATEGORIES OF FUNDS**

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The following types of funds should be used by state and local governments:

- **Governmental Funds**
  - GASB 54
- **Proprietary Funds**
- **Fiduciary Funds**

# Governmental Funds

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|                              |   |
|------------------------------|---|
| <b>General Fund</b>          | Accounts for all financial resources except those required to be accounted for in another fund.   |
| <b>Special Revenue Fund</b>  | <i>Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects.</i> |
| <b>Capital Projects Fund</b> | Accounts for and reports those financial resources restricted, committed or assigned to expenditure for capital outlays (other than those financed by proprietary and trust funds)        |
| <b>Debt Service Fund</b>     | Accounts for and reports those financial resources that are restricted, committed, or assigned to expenditure for principal and interest.   |
| <b>Permanent Fund</b>        | Accounts for legally restricted resources provided by trust in which the <b>earnings but not the principal may be used</b> for purposes that support the primary government's programs.   |

# Proprietary Funds

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|                              |   |
|------------------------------|---|
| <b>Enterprise Fund</b>       | Accounts for operations that are financed and operated in a manner similar to private enterprises – where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; <u>or</u> where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, or other purposes. |
| <b>Internal Service Fund</b> | Accounts for financing of good or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.   |



# Fiduciary Funds

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|  |  |
|--|--|
| <b>Custodial Fund</b><br><b>(GASB 84 change)</b> | To account for assets held by a governmental unit acting as agent for one or more other governmental units, or for individuals or private organizations.                             |
| <b>Pension Trust Fund</b>                        | To account for assets held by a governmental unit acting as agent for employee benefit contributions that will be paid to qualified retirees, beneficiaries, and disabled employees. |
| <b>Investment Trust Fund</b>                     | To account for the assets, liabilities, net assets and changes in net assets corresponding to the equity of the external participants.   |
| <b>Private-Purpose Trust Fund</b>                | To account for legally restricted resources provided by trust which will be used for private purposes.   |

# GASB 54 Effect on Funds

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- **GASB 54 (2011) implemented a five-tier fund balance classification hierarchy** within governmental funds that depicts the extent to which a government is **bound by spending constraints imposed on the use of its resources**
- **Not all of these classifications will be needed** in every governmental fund or by every LEA.
- The five classifications are:
  - Non-spendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned

# GASB 54

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- **Nonspendable** – Inventories, prepaid assets, endowments
- **Restricted** - can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
  - Operating and capital grants that can be used only for specific purposes
  - Resources restricted by contractual arrangements such as debt proceeds
- **Committed** - amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.
  - Capital acquisition or construction
  - Funds set aside in Board minutes for maintenance, projects
- **Assigned** - intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
  - Also any fund balances in special revenue, capital projects, debt service or permanent funds NOT identified as nonspendable, restricted, or committed
- **Unassigned** - the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

# As a reminder,

## GASB 34 Effect on Funds

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- **Eliminated expendable and nonexpendable trust funds** to focus fiduciary reporting on resources held for parties external to the reporting government: individuals, private organizations, and other governments.
- Fiduciary funds **cannot** be used to support the government's own programs.
- **Created 2 new types of funds** – Permanent Funds (Governmental) and Private-Purpose Trust Funds (Fiduciary)

# GASB 54 –Encumbrances

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## Interpretation by GASB

- At the very least, the existence of an encumbrance suggests that the government has an expressed intent to use resources for a particular purpose and therefore these resources should not be classified as unassigned.
- Encumbrance accounting may also be used in the case of contractual obligations, such as construction contracts.
- Statement 54 requires that resources obligated to contractual obligations be classified as committed.

# GASB 54 - Special Revenue Funds

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- Statement 54 makes clear that, for financial reporting purposes, a special revenue fund **may only be established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service.**
- For example, a school district might report state and federal aid for elementary and secondary education in a special fund if those revenue sources **represent a substantial portion** of the fund's total inflows.

# GASB 54 –Negative Balances

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- GASB 54 does not permit the reporting of negative restricted, committed or assigned fund balances
  - The rationale is that if expenditures exceed restricted or committed resources, then funds have in effect been reallocated to the purpose used.
  - If a deficit remains once all assigned fund balances are zero, the remaining negative amount should be reported as **unassigned fund balance**.

# GAFR PRINCIPLE #4

## NUMBER OF FUNDS

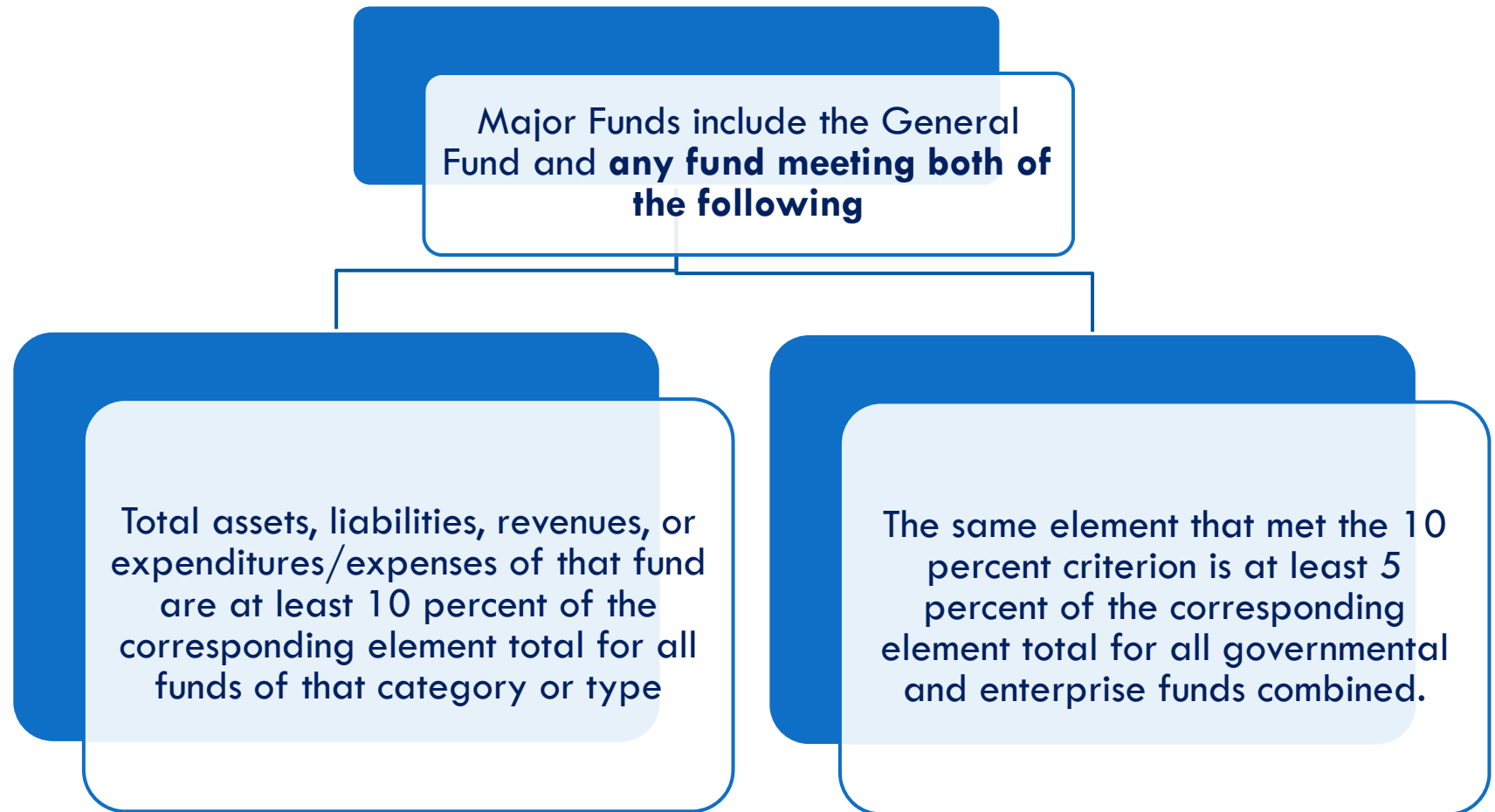
44

- Governmental units should establish and maintain those funds required by law and sound financial administration.
- Only the **minimum** number of funds consistent with legal and operating requirements should be established since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.
- Minimum Fund-Type – 1 General Fund



# Major Fund Determination

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# Major Fund Determinations

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- GASB 34 permits a government to designate a particular fund that is of interest to users as a major fund and to individually present its information in the basic financial statements, even if it does not meet the criteria.
  - But, a government does not have the option to NOT report a fund as major if it meets the rule for reporting
- Use **aggregate** assets/deferred outflows and aggregate liabilities/deferred inflows in calculation.
- **For example** - Total of Assets + Deferred Outflows  $\geq$  10% of TOTAL for ALL funds of that category **AND** same element is  $\geq$  5% of corresponding elements (total) for ALL governmental and enterprise funds combined
- Same test goes for Total Liabilities & Deferred Inflows; or Total Revenues; or Total Expenditures/Expenses.

# GAFR PRINCIPLE #5

## REPORTING CAPITAL ASSETS

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A clear distinction should be made between general capital asset and capital assets of proprietary and fiduciary funds.

- All capital assets of the government unit found in the governmental funds are general capital assets
  - They should **not be reported as assets in governmental funds** but should be reported in the governmental activities column in the government-wide statement of net position
- Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements
- Capital assets of fiduciary funds should be reported in only the statement of fiduciary net assets

# GAFR PRINCIPLE #6

## VALUATION OF CAPITAL ASSETS

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- **Capital assets are reported at historical cost.**
- The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use.
- **If the cost is not practicably determinable, the assets should be reported at estimated cost/fair value of asset. (GASB 72)**
- Donated capital assets should be reported at their estimated fair value at the time of the acquisition plus ancillary charges, if any.
- Assets may be written down for impairment (GASB 42)

# GAFR PRINCIPLE #7

## DEPRECIATION OF CAPITAL ASSETS

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- Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets using the modified approach.
- Under modified approach, a government can elect NOT to depreciate eligible infrastructure assets if they **meet two requirements**:
  1. Must have an up-to-date inventory of eligible assets with a conditional assessment and annual estimates of the amount needed to maintain and preserve the assets.
  2. Must document the assets are being preserved at (or above) the condition level established and disclosed in Requirement 1.

# GAFR PRINCIPLE #7

## DEPRECIATION OF CAPITAL ASSETS

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- Depreciation expense should be reported in:
  - The Government-Wide Statement of Activities;
  - The Proprietary Fund Statement of Revenue, Expenses, and Changes in Fund Net Position;
  - The Statement of Changes in Fiduciary Net Position.
- **Not in the governmental fund statements.**

# GAFR PRINCIPLE #7

## DEPRECIATION OF CAPITAL ASSETS

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- Depreciation methods such as Straight Line, Sum of Years Digits or Declining Balance can be used
  - Most SLG use Straight Line
- Useful lives –
  - Guidelines obtained from professional or industry organizations
  - Information for comparable assets of other governments
  - Internal information

# GAFR PRINCIPLE #8

## REPORTING LONG-TERM LIABILITIES

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- General long-term liabilities includes all debt that is to be paid with general governmental resources.
- **General long-term liabilities of the governmental unit should only be reported in the governmental activities column in the government-wide statement of net position – not in the fund statements.**
- Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net assets and in the government-wide statement of net assets.
- Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net assets.



# GAFR PRINCIPLE #9

## MEASUREMENT FOCUS & BASIS OF ACCOUNTING (MFBA)

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- **Measurement Focus** – what items are being reported in the financial statements
- **Basis of Accounting** – when transactions and events are recognized in accounting records
- **Basic Financial Statements**
  - Government-Wide Financial Statements
  - Fund Financial Statements

# MEASUREMENT FOCUS

## (What to Measure)

54

### ECONOMIC RESOURCES:

- Measures both current and long-term assets and liabilities
- Measurement focus used by “business”

### CURRENT FINANCIAL RESOURCES:

- Measures current financial resources
- No fixed assets or long-term debt
- Unique to state and local governments (SLG)

# It all goes back to demonstrating accountability

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- **Operational Accountability** – flow of economic resources
  - Government-Wide Statements
  - Proprietary and Fiduciary Fund Level Statements
- **Fiscal Accountability** – flow of current financial resources
  - Governmental Fund Level Statements

# ACCOUNTING BASIS

## (How to Measure)

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- **Modified Accrual Accounting** – revenues are recorded only if they are measurable and available for paying current period obligations.
- **Accrual Accounting** - revenues are recorded when earned and expenditures/expenses are recorded as soon as they result in liabilities for benefits received.
  - **Cash payment/receipt does not have an impact on accrual.**

# Modified Accrual vs. Accrual Breakdown

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- **Accrual**
  - Recognize revenues when earned
  - Match expenses against the revenues when resources or services are used.
- **Modified Accrual**
  - Recognize revenues when measurable and available
    - (available to pay this year's bills—for example, property taxes received within 60 days of year end)
  - Recognize expenditures when the liability is incurred — no attempt to match to revenues, match to period of occurrence only
    - Exception — recognize interest and principal payments as expenditures when DUE

# ACCOUNTING BASIS COMPARISON

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|             | <u>ACCRUAL</u>               | <u>MODIFIED ACCRUAL</u>            |
|-------------|------------------------------|------------------------------------|
| REVENUE     | earned                       | earned & available                 |
| EXPENSE     | incurred                     | -----                              |
| EXPENDITURE | -----                        | incurred and fund liability exists |
| TRANSFERS   | interfund<br>rec./pay. arise | interfund<br>rec./pay. arise       |

# Measurement Focus

| ST-3 and Fund<br>Financial Statements   | District-Wide<br>Financial Statements   |
|---|---|
| Flow of current financial resources   | Flow of economic resources  |
| Are there more or less resources that can be spent in the near future as a result of events and transactions of the period? | Will the district be better or worse off economically as a result of events and transactions of the period? |
| Increase in spendable resources<br>- Revenues or other financing sources  | Events and transactions that improve economic position<br>- Revenues or gains                               |
| Decrease in spendable resources<br>- Expenditures and other financing uses  | Events and transactions that diminish economic position<br>- Expenses or losses                             |

Source: *School Districts Accounting & Reporting Manual*  
Office of the New York State Comptroller

# Measurement Focus

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| 1. Receipt of long-term debt proceeds       |                                    |
|---|------------------------------------|
| ST-3 and Fund Financial Statements          | District-Wide Financial Statements |
| Increase in spendable resources             | Economic position not improved     |
| DR Cash<br>CR Other Financing Sources       | DR Cash<br>CR Bonds Payable        |
| 2. Repayment of principal on long-term debt |                                    |
| ST-3 and Fund Financial Statements          | District-Wide Financial Statements |
| Decrease in spendable resources             | Economic position not diminished   |
| DR Expenditure<br>CR Cash                   | DR Bonds Payable<br>CR Cash        |

Source: *School Districts Accounting & Reporting Manual*  
Office of the New York State Comptroller



# Measurement Focus

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| 3. Capital acquisition   |   |
|--|---|
| ST-3 and Fund Financial Statements                               | District-Wide Financial Statements                              |
| Decrease in spendable resources<br><br>DR Expenditure<br>CR Cash | Economic position not diminished<br><br>DR Equipment<br>CR Cash |

| 4. Exhaustion of capital assets  |  |
|--|--|
| ST-3 and Fund Financial Statements                                     | District-Wide Financial Statements   |
| No effect on spendable resources<br><br>Depreciation is not recognized | Economic position diminished<br><br>DR Depreciation Expense<br>CR Accumulated Depreciation |

Source: *School Districts Accounting & Reporting Manual*  
Office of the New York State Comptroller

# Accrual Basis

| ST-3 and Fund<br>Financial Statements   | District-Wide<br>Financial Statements  |
|---|--|
| Cash flow must occur within a short-enough period to affect current spendable resources. Revenues must be both measurable and available, and expenditures are generally recognized when they are expected to draw upon current spendable resources. | Revenue/gain or expense/loss recognized when they occur regardless of cash flow. |

Source: *School Districts Accounting & Reporting Manual*  
Office of the New York State Comptroller

# Accrual Basis

| 1. Billing for services rendered  |  |
|---|--|
| ST-3 and Fund Financial Statements  | District-Wide Financial Statements   |
| DR Receivable<br>CR Revenue<br>CR Deferred Inflow of Resources<br><br>Only the amount available to finance liabilities of the current period would be recognized as revenues. | DR Receivable<br>CR Revenue<br><br>Entire revenue recognized in the period in which service was provided. The timing of collections is not relevant. |

Source: *School Districts Accounting & Reporting Manual*  
Office of the New York State Comptroller

# Accrual Basis

| 2. Employees earn vacation leave that will be taken or paid out in the future   |  |
|---|--|
| ST-3 and Fund<br>Financial Statements   | District-Wide<br>Financial Statements                                      |
| No Expenditure<br><br>Leave would be recognized as an expenditure to the extent it is expected to be liquidated with current spendable resources. | DR Expense<br>CR Accrued Liability<br><br>The liability has been incurred. |

Source: *School Districts Accounting & Reporting Manual*  
Office of the New York State Comptroller

# Expenditures Explored

65

- Expenditures are decreases in net financial resources.
- In governmental funds, expenditures are usually recognized in the accounting period in which the goods or services are received and the liability for payment is incurred.
- However, in instances when current financial resources are not reduced as a result of the incurrence of a liability, an expenditure is not recorded.
  - Example is liability for compensated absences.

# **GASB Interpretation No. 6**

- Clarifies the guidance for recognizing certain liabilities and expenditures in governmental funds.
- The matured portion of long-term indebtedness, to the extent it is expected to be liquidated with expendable available financial resources, should be recorded as a fund liability and expenditure.
- The unmatured portion of the long-term indebtedness represents a general long-term liability to be presented in the government-wide financial statements.

# Types of Expenditures

67

- **Operating** – day-to-day activities including payroll and related employee benefits
- **Capital** - relate to the acquisition of capital assets
- **Debt service** - represent the payment of principal and interest needed to service debt
- **Intergovernmental charges** - relate to the transfer of resources from one school district to another, to or from other local governments, or to or from the state. Examples of such charges include contracted instructional services between public schools.

# Expenditures/Expenses

## Recognition Points

68

- **Expenses** are defined as the outflows or expiration of assets or the incurrence of liabilities during a period from providing or producing goods, rendering services, or carrying out other activities that constitute the entity's primary operations.
- **Difference between expenditure and expenses** when dealing with acquisition and usage of capital assets (among other items).



# Basis/Measurement - Recap

|  | <b>Governmental Funds</b>  | <b>Government-Wide<br/>Proprietary &amp;<br/>Fiduciary Funds</b>              |
|--|--|---|
| <b>Measurement Focus</b>                                 | <b>Flow of current<br/>financial resources</b>   | <b>Flow of economic<br/>resources</b>   |
| <b>Terminology</b>                                       | <b>Revenues<br/>Other Financing<br/>Sources<br/>Expenditures<br/>Other Financing Uses</b>  | <b>Revenues<br/>Gains<br/>Expenses<br/>Losses</b>                             |
| <b>Basis</b>   | <b>Modified Accrual</b>  | <b>Accrual</b>  |
| <b>Timing of Revenue<br/>Recognition</b>                 | <b>When measurable<br/>and<br/>available</b>   | <b>When earned or an<br/>inflow is reasonably<br/>certain to be collected</b> |
| <b>Timing of<br/>Expenditure/Expense<br/>Recognition</b> | <b>When expenditure is<br/>incurred, if<br/>measurable with<br/>some exceptions such as<br/>interest, claims,<br/>compensated absences</b> | <b>When cost is incurred</b>  |

# **GAFR PRINCIPLE #9**

## **BASIC FINANCIAL STATEMENTS**

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- **Basic Financial Statements**
  - **Government-Wide Financial Statements**
  - **Fund Financial Statements**

# **GASB 34/63**

## **Government-Wide Financial Statements**

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### **Statement of Net Position**

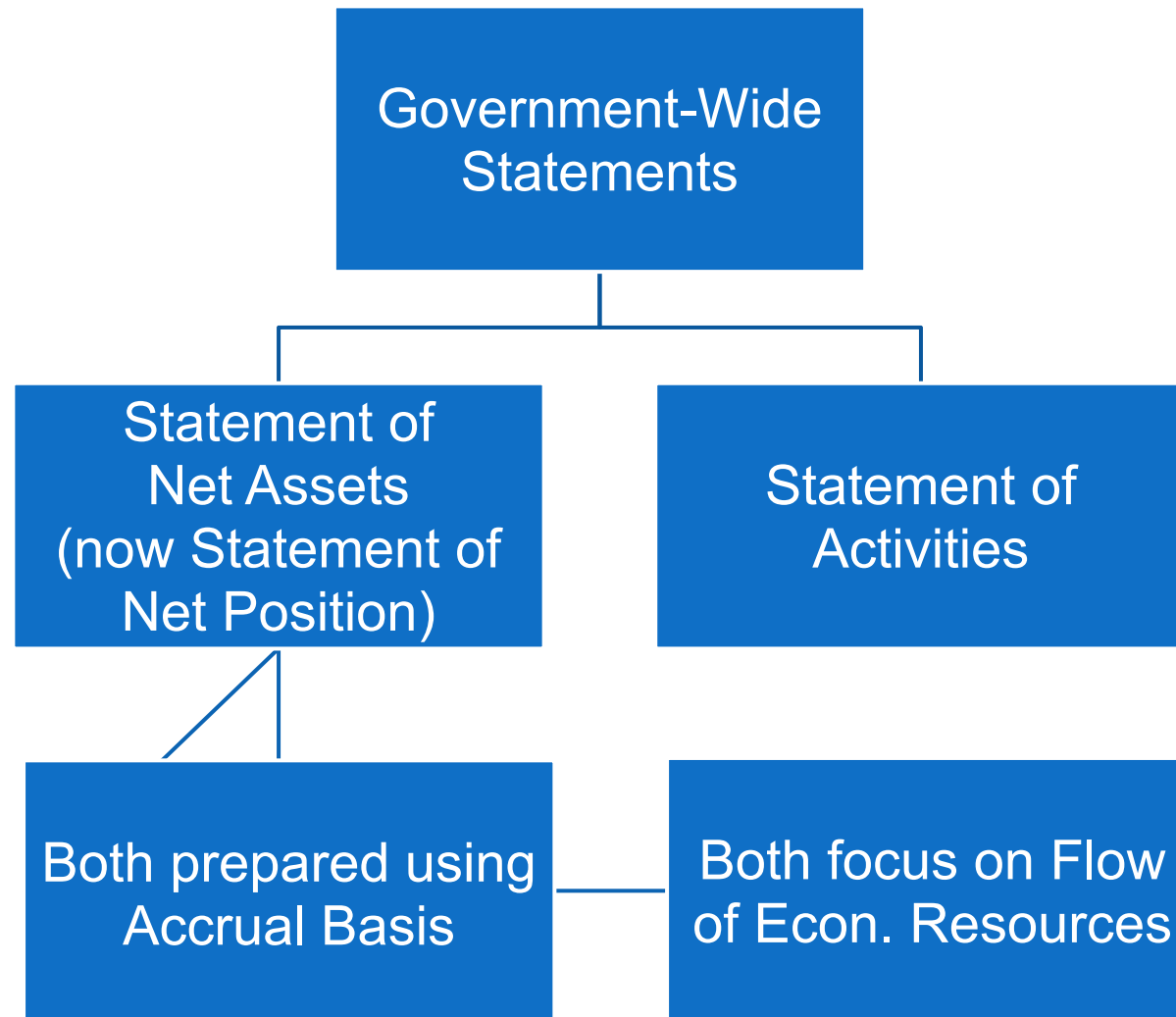
- Reports year end financial position
- Most comparable to a business' balance sheet

### **Statement of Activities**

- Reports expenses and revenues classified by program or function
- Uses separate columns for governmental activities, business-type activities, and component units

# GASB 34 (1999) Introduced Government-Wide Statements

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# GASB 63 - Statement of Net Position

73

- Formerly called Statement of Net Assets
- Presents the same information as a balance sheet.
- It assesses the balance of a government's **assets**—the resources it can use to provide service and operate the government—against its **liabilities**—its obligations to turn over resources to other organizations or individuals.
- The difference between a government's assets and its liabilities is called **net position**. The name of the statement reflects its emphasis on what a government would have left over after satisfying its liabilities.
- **Net position** —its financial standing at a given point in time (typically, the end of the fiscal year). Financial position can be tracked over time to assess whether a government's financial health is improving or deteriorating.

**Condensed Statement of Net Position – Primary Government\***  
**As of March 31, 2017 (amounts in millions)**

|   | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>    |
|---|------------------------------------|-------------------------------------|-----------------|
| <b>Assets:</b>                                    |                                    |                                     |                 |
| Cash and investments                              | \$15,977                           | \$8,173                             | \$24,150        |
| Receivables, net                                  | 26,511                             | 3,585                               | 30,096          |
| Internal balances                                 | (927)                              | 1,067                               | 140             |
| Net pension asset                                 | -                                  | 77                                  | 77              |
| Other assets                                      | 710                                | 205                                 | 915             |
| Capital assets                                    | 87,841                             | 16,990                              | 104,831         |
| <b>Total assets</b>                               | <b>130,112</b>                     | <b>30,097</b>                       | <b>160,209</b>  |
| <b>Deferred outflows of resources</b>             | <b>8,306</b>                       | <b>1,246</b>                        | <b>9,552</b>    |
| <b>Liabilities:</b>                               |                                    |                                     |                 |
| Tax refunds payable                               | 11,305                             | -                                   | 11,305          |
| Payable to local governments                      | 7,019                              | -                                   | 7,019           |
| Accrued liabilities and<br>accounts payable       | 10,098                             | 2,446                               | 12,544          |
| Other liabilities due within one year             | 6,791                              | 1,795                               | 8,586           |
| Liabilities due in more than one year             | 73,611                             | 26,471                              | 100,082         |
| <b>Total liabilities</b>                          | <b>108,824</b>                     | <b>30,712</b>                       | <b>139,536</b>  |
| <b>Deferred inflows of resources</b>              | <b>1,014</b>                       | <b>299</b>                          | <b>1,313</b>    |
| <b>Net position:</b>                              |                                    |                                     |                 |
| Net investment in capital assets                  | 70,561                             | 1,746                               | 72,307          |
| Restricted for debt service<br>and other purposes | 3,618                              | 4,016                               | 7,634           |
| Unrestricted deficits                             | (45,599)                           | (5,430)                             | (51,029)        |
| <b>Total Net Position</b>                         | <b>\$28,580</b>                    | <b>\$332</b>                        | <b>\$28,912</b> |

|  | <b>Governmental<br/>Activities</b> |
|--|------------------------------------|
| <b><u>Assets</u></b>   |                                    |
| Cash and Cash Equivalents  | \$ 4,270,123.78                    |
| Cash with Fiscal Agent   | 1,658,966.59                       |
| Investments  | 34,943.62                          |
| Ad Valorem Property Taxes Receivable   | 4,565,281.40                       |
| Receivables (Note 4)   | 662,366.61                         |
| Inventories  | 63,423.25                          |
| Capital Assets (Note 5):   |                                    |
| Nondepreciable   | 1,259,149.09                       |
| Depreciable, Net   | 17,458,660.28                      |
| Total Assets   | <u>29,972,914.62</u>               |
| <b><u>Deferred Outflows of Resources</u></b>   |                                    |
| Employer Pension Contribution  | 1,632,859.58                       |
| Proportionate Share of Collective Deferred Outflows Related to Net Pension Liability | 1,277,000.00                       |
| Employer Other Postemployment Benefits (OPEB) Contribution                           | 655,894.43                         |
| Total Deferred Outflows of Resources   | <u>3,565,754.01</u>                |
| <b><u>Liabilities</u></b>  |                                    |
| Accounts Payable   | 230,214.36                         |
| Unearned Revenue   | 41,528.75                          |
| Salaries and Benefits Payable  | 1,582,497.28                       |
| Long-Term Liabilities:   |                                    |
| Portion Due or Payable Within One Year   | 265,366.10                         |
| Portion Due or Payable After One Year  | 46,868,214.85                      |
| Total Liabilities  | <u>48,987,821.34</u>               |
| <b><u>Deferred Inflows of Resources</u></b>  |                                    |
| Unavailable Revenue - Property Taxes   | 4,565,281.40                       |
| Proportionate Share of Collective Deferred Inflows Related to Net Pension Liability  | 3,187,000.00                       |
| Proportionate Share of Collective Deferred Inflows Related to Net Other              |                                    |
| Postemployment Benefits (OPEB) Liability   | 3,454,307.00                       |
| Total Deferred Inflows of Resources  | <u>11,206,588.40</u>               |
| <b><u>Net Position</u></b>   |                                    |
| Net Investment in Capital Assets   | 13,161,775.42                      |
| Restricted for:  |                                    |
| Debt Service   | 1,658,966.59                       |
| Capital Projects   | 1,541,518.44                       |
| Fleet Renewal  | 274,798.75                         |
| Other Purposes   | 287,118.92                         |
| Unrestricted   | <u>(43,579,919.23)</u>             |
| Total Net Position   | <u>\$ (26,655,741.11)</u>          |

# Statement of Activities

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- Runs from left to right along the top and the proceeds downward on the right-hand side.
- It begins with **expenses** in the upper left-hand corner and presents **program revenues** to the immediate right. The upper right-hand corner calculates **net expenses or net revenues** —the difference between expenses and program revenues. The lower section then presents taxes and other **general revenues**, as well as other changes in net assets.
- Compares the costs (expenses) of a government's functions and programs with the resources those functions or programs generate themselves (program revenues).



| Functions/Programs   | Expenses             | Program Revenues        |  |  | Net (Expenses)<br>Revenues and<br>Changes in Net<br>Position |
|--|----------------------|-------------------------|--|--|--|
|  |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital Grants<br>and<br>Contributions | Total<br>Governmental<br>Activities                          |
| Governmental activities  |                      |                         |  |  |  |
| Instruction  | \$ 54,914,578        | \$ 1,346,033            | \$ 33,115,638                            | \$ 909,516                             | \$ (19,543,391)  |
| Instructional support  | 17,507,906           | 948,709                 | 8,722,487                                | 61,720                                 | (7,774,990)  |
| Operation and maintenance  | 7,907,069            | 98,386                  | 1,527,907                                | 947,453                                | (5,333,323)  |
| Auxiliary services   |                      |                         |  |  |  |
| Student transportation services  | 5,111,896            | 159,262                 | 2,983,858                                | 488,455                                | (1,480,321)  |
| Food services  | 3,818,299            | 2,943,469               | 221,467                                  | -                                      | (653,363)  |
| General administrative services  | 3,119,270            | 2,350                   | 415,281                                  | -                                      | (2,701,639)  |
| Other  | 1,144,358            | 840,541                 | 173,858                                  | -                                      | (129,959)  |
| Total governmental activities  | <u>\$ 93,523,376</u> | <u>\$ 6,338,750</u>     | <u>\$ 47,160,496</u>                     | <u>\$ 2,407,144</u>                    | <u>(37,616,986)</u>  |
| General revenues   |                      |                         |  |  |  |
| Taxes  |                      |                         |  |  |  |
| Property taxes for general purposes  |                      |                         |  |  | 13,010,414   |
| Local sales taxes  |                      |                         |  |  | 7,752,697  |
| Alcohol beverage tax   |                      |                         |  |  | 593,285  |
| Other taxes  |                      |                         |  |  | 57,710   |
| Grants and contributions not restricted                                      |                      |                         |  |  | 3,040  |
| City Council appropriations/payments   |                      |                         |  |  | 30,433,648   |
| Investment earnings  |                      |                         |  |  | 203,399  |
| Miscellaneous  |                      |                         |  |  | 1,141,220  |
| Total general revenues   |                      |                         |  |  | <u>53,195,413</u>  |
| Change in net position   |                      |                         |  |  | <u>15,578,427</u>  |
| Net position, beginning of year  |                      |                         |  |  | 134,813,744  |
| Adjustment to record proportionate share<br>of collective net OPEB liability |                      |                         |  |  | <u>(60,234,792)</u>  |
| Net position, beginning of year, as restated                                 |                      |                         |  |  | <u>74,578,952</u>  |
| Net position, end of year  |                      |                         |  |  | <u>\$ 90,157,379</u>   |

# Reporting Special Items and Certain Transfers

78

The following items are reported as separate line items below General Revenues in the Statement of Activities:

- **Special items** are items *within management's control* that may be either unusual in nature or infrequent in occurrence.
- **Extraordinary items** are items or other events that are both unusual in nature and infrequent in occurrence.
- **Transfers** between governmental activities and business-type activities.

# GAFR PRINCIPLE #9

## BASIC FINANCIAL STATEMENTS

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### Governmental Fund Financial Statements

- Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.
- Revenues should be recognized in the accounting period in which they become available and measurable.
- Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on general long-term liabilities, which should be recognized when due.

# Governmental Fund Balance Sheet Equation

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# Fund Financial Statement Focus Comparison

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## Governmental Funds

- Fiscal accountability
- Flow of current financial resources
- Modified accrual basis

## Proprietary Funds

- Operational accountability
- Flow of economic resources
- Accrual basis

## Fiduciary Funds

- Operational accountability
- Flow of economic resources
- Accrual basis

# Fund Financial Statements

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## Governmental Funds

- **Balance Sheet**
- **Statement of Revenues, Expenditures, and Changes in Fund Balance**

## Proprietary Funds

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Fund Net Position
- Statement of Cash Flows

## Fiduciary Funds

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

|                                      | General Fund         | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|----------------------|-----------------------|--------------------------|--------------------------|
| <b>ASSETS</b>                        |                      |                       |                          |                          |
| Cash and cash equivalents            | \$ 17,079,415        | \$ 13,559,449         | \$ 6,170,279             | \$ 36,809,143            |
| Receivables, net                     |                      |                       |                          |                          |
| Accounts                             | 54,064               | -                     | 4,800                    | 58,864                   |
| Interest                             | 19,219               | -                     | -                        | 19,219                   |
| Due from other governments           | 809,420              | 2,737,663             | 167,050                  | 3,714,133                |
| Interfund receivable                 | 25,476               | -                     | 24,506                   | 49,982                   |
| Inventories                          | -                    | -                     | 186,818                  | 186,818                  |
| Total assets                         | <u>\$ 17,987,594</u> | <u>\$ 16,297,112</u>  | <u>\$ 6,553,453</u>      | <u>\$ 40,838,159</u>     |
| <b>LIABILITIES AND FUND BALANCES</b> |                      |                       |                          |                          |
| <b>Liabilities</b>                   |                      |                       |                          |                          |
| Accounts payable                     | \$ 906,048           | \$ 2,133,187          | \$ 241,126               | \$ 3,280,361             |
| Due to other governments             | -                    | -                     | 93,924                   | 93,924                   |
| Unearned revenue                     | -                    | 447,785               | 171,800                  | 619,585                  |
| Interfund payable                    | 36,495               | -                     | 13,487                   | 49,982                   |
| Salaries and benefits payable        | 5,369,376            | -                     | 420,186                  | 5,789,562                |
| Total liabilities                    | <u>6,311,919</u>     | <u>2,580,972</u>      | <u>940,523</u>           | <u>9,833,414</u>         |
| <b>Fund balances</b>                 |                      |                       |                          |                          |
| Nonspendable                         | -                    | -                     | 186,818                  | 186,818                  |
| Restricted                           | 347,138              | -                     | 1,763,826                | 2,110,964                |
| Committed                            | -                    | -                     | 3,869,801                | 3,869,801                |
| Assigned                             | 329,275              | 13,716,140            | -                        | 14,045,415               |
| Unassigned                           | 10,999,262           | -                     | (207,515)                | 10,791,747               |
| Total fund balances                  | <u>11,675,675</u>    | <u>13,716,140</u>     | <u>5,612,930</u>         | <u>31,004,745</u>        |
| Total liabilities and fund balances  | <u>\$ 17,987,594</u> | <u>\$ 16,297,112</u>  | <u>\$ 6,553,453</u>      | <u>\$ 40,838,159</u>     |

# Statement of Revenues, Expenditures, and Changes in Fund Balance

- **Revenues** are shown by source or type and there is not a set list of revenue categories that must be shown, nor a required level of detail, which results in some variation from government to government.
- **Expenditures** generally are shown by function and object with the current operating expenditures presented apart from debt service and capital expenditures.
- **Other financing sources and uses** include the cash received when bonds are issued, as well as transfers between funds.
- **Extraordinary and Special Items** presented apart from revenues and expenditures.
- **Fund Balance, Ending** is derived from **Net Changes in Fund Balance and Beginning Fund Balance** and should match the total fund balances reported in the balance sheet.



|   | General Fund         | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|-----------------------|--------------------------|--------------------------|
| REVENUES  |                      |                       |                          |                          |
| State   | \$ 43,876,107        | \$ 2,400,896          | \$ 2,010                 | \$ 46,279,013            |
| Federal   | 60,554               | -                     | 4,603,095                | 4,663,649                |
| Local   | 35,358,020           | 17,053,736            | 5,315,742                | 57,727,498               |
| Other   | 295,073              | -                     | 78,179                   | 373,252                  |
| Total revenues                                    | <u>79,589,754</u>    | <u>19,454,632</u>     | <u>9,999,026</u>         | <u>109,043,412</u>       |
| EXPENDITURES                                      |                      |                       |                          |                          |
| Current   |                      |                       |                          |                          |
| Instruction                                       | 43,309,040           | 890,266               | 5,297,075                | 49,496,381               |
| Instructional support                             | 15,069,630           | 50,376                | 1,930,899                | 17,050,905               |
| Operation and maintenance                         | 6,848,300            | 876,456               | 96,880                   | 7,821,636                |
| Auxiliary services                                | 4,699,899            | 488,455               | 4,273,676                | 9,462,030                |
| General administrative services                   | 2,874,939            | -                     | 245,190                  | 3,120,129                |
| Other   | 295,835              | -                     | 828,430                  | 1,124,265                |
| Capital outlay                                    | 79,975               | 16,604,419            | -                        | 16,684,394               |
| Debt service                                      |                      |                       |                          |                          |
| Principal retirement                              | -                    | -                     | 593,263                  | 593,263                  |
| Total expenditures                                | <u>73,177,618</u>    | <u>18,909,972</u>     | <u>13,265,413</u>        | <u>105,353,003</u>       |
| Excess (deficiency) of revenues over expenditures | <u>6,412,136</u>     | <u>544,660</u>        | <u>(3,266,387)</u>       | <u>3,690,409</u>         |
| OTHER FINANCING SOURCES (USES)                    |                      |                       |                          |                          |
| Transfers in                                      | 288,273              | 3,000,000             | 2,106,155                | 5,394,428                |
| Capital leases                                    | -                    | -                     | 1,763,959                | 1,763,959                |
| Proceeds from the sale of assets                  | -                    | 21,042                | -                        | 21,042                   |
| Indirect cost                                     | 314,082              | -                     | -                        | 314,082                  |
| Other sources                                     | 58,392               | -                     | -                        | 58,392                   |
| Transfers out                                     | (5,106,155)          | -                     | (288,273)                | (5,394,428)              |
| Total other financing sources (uses)              | <u>(4,445,408)</u>   | <u>3,021,042</u>      | <u>3,581,841</u>         | <u>2,157,475</u>         |
| Net changes in fund balances                      | 1,966,728            | 3,565,702             | 315,454                  | 5,847,884                |
| Fund balances, beginning of year                  | <u>9,708,947</u>     | <u>10,150,438</u>     | <u>5,297,476</u>         | <u>25,156,861</u>        |
| Fund balances, end of year                        | <u>\$ 11,675,675</u> | <u>\$ 13,716,140</u>  | <u>\$ 5,612,930</u>      | <u>\$ 31,004,745</u>     |

# GAFR PRINCIPLE #9

## BASIC FINANCIAL STATEMENTS

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- Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resource measurement focus and the accrual basis of accounting.
- Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

# **GAFR PRINCIPLE #10**

## **BUDGETING, BUDGETARY CONTROL, & BUDGETARY REPORTING**

87

- A plan of financial operation embodying an estimated of proposed expenditures for a given period and the proposed means of financing them.
- Plan to finance public policy expenditures for coming fiscal year.
- Management Control Device
- Legislative Monitoring Device

# **GAFR PRINCIPLE #10**

## **BUDGETING, BUDGETARY CONTROL, & BUDGETARY REPORTING**

88

- An annual budget(s) should be adopted by every governmental unit.
- The accounting system should provide the basis for appropriate budgetary control.
- Common terminology and classification should be used consistently throughout the budget, accounts and financial statements.

## **GAFR PRINCIPLE #10**

### **BUDGETING, BUDGETARY CONTROL, & BUDGETARY REPORTING**

89

- Budgetary comparison schedules should be presented for the **General Fund and each major special revenue fund that has a legally adopted budget** as part of the required supplementary information (RSI).
- Governments may elect to present the budgetary comparisons as part of the basic financial statements.

# Reporting Budgeted and Actual Results

- Individual fund budgetary comparisons are required to be presented at the legal level of budgetary control, which represents the fund, program, or organizational unit at which expenditures may not exceed appropriations without a formal budgetary amendment.
- Actual amounts in a budgetary comparison should be presented using the government's budgetary basis (cash, accrual, or modified accrual).

# GAFR PRINCIPLE #10

## BUDGETING, BUDGETARY CONTROL, & BUDGETARY REPORTING

91

- The budgetary comparison schedule should present:
  1. the original budget
  2. the final appropriated (amended) budgets for the reporting period
  3. actual inflows, outflows, and balances, stated on the government's budgetary basis.

# BUDGETARY ACCOUNTS

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- ***Estimated Revenues*** are expected resource inflows from activities that constitute the normal, operating activities of the entity.
- ***Unallotted Appropriations*** are the legal spending limits set by legislative authority which specify planned resource outflows (expenditures) and obligations to be incurred from activities that constitute the normal, operating activities of the entity.
- ***Allotted Appropriations*** are the portion of the planned spending amount that are available for commitment by the agency or program.
- ***Estimated Other Financing Sources*** are expected resource inflows from events other than estimated revenues.



# BUDGETARY ACCOUNTS

- ***Estimated Other Financing Uses*** are planned resource outflows or obligations to be incurred from activities other than appropriations.
- ***Estimated Equity Transfers In*** are planned nonrecurring resource transfers between funds.
- ***Estimated Equity Transfers Out*** are planned nonrecurring resource transfers between funds.
- ***Budgetary Fund Balance*** is the expected net change to fund resources from anticipated revenues and expenditure activity.

# BUDGETARY ACCOUNTS

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## **BUDGETARY ACCOUNTS**

## **NORMAL BALANCE**

ESTIMATED REVENUES

debit

UNALLOTTED APPROPRIATIONS

credit

ALLOTTED APPROPRIATIONS

credit

ESTIMATED OTHER FINANCING SOURCES

debit

ESTIMATED OTHER FINANCING USES

credit

ESTIMATED EQUITY TRANSFERS IN

debit

ESTIMATED EQUITY TRANSFERS OUT

credit

**BUDGETARY FUND BALANCE**

**debit/credit**

# Budgetary and Operating Account Relationships

95

| Budgetary Accounts                        | Operating Accounts                     | Budgetary Status  |
|---|--|---|
| Estimated Revenues (Debit)                | Revenues (Credit)                      | Net balance indicates deficit (excess) of operating (actual) vs. budgeted revenues.                                   |
| Estimated Other Financing Sources (Debit) | Other Financing Sources (OFS) (Credit) | Net balance indicates the amount of remaining or overspent interfund transfer authority.                              |
| Appropriations (Credit)                   | Expenditures (Debit)                   | Appropriations minus the sum of Expenditures and Encumbrances indicates remaining or overspent expenditure authority. |
| Estimated Other Financing Uses (Credit)   | Other Financing Uses (OFU) (Debit)     | Net balance indicates the amount of remaining or overspent interfund transfer authority.                              |
| Encumbrances (Debit)                      | N/A                                    | An encumbrance has a normal debit balance because it is a commitment to make an expenditure.                          |

# GAFR PRINCIPLE #11

## ACCOUNT CLASSIFICATION

96

### **Balance Sheet Accounts (permanent)**

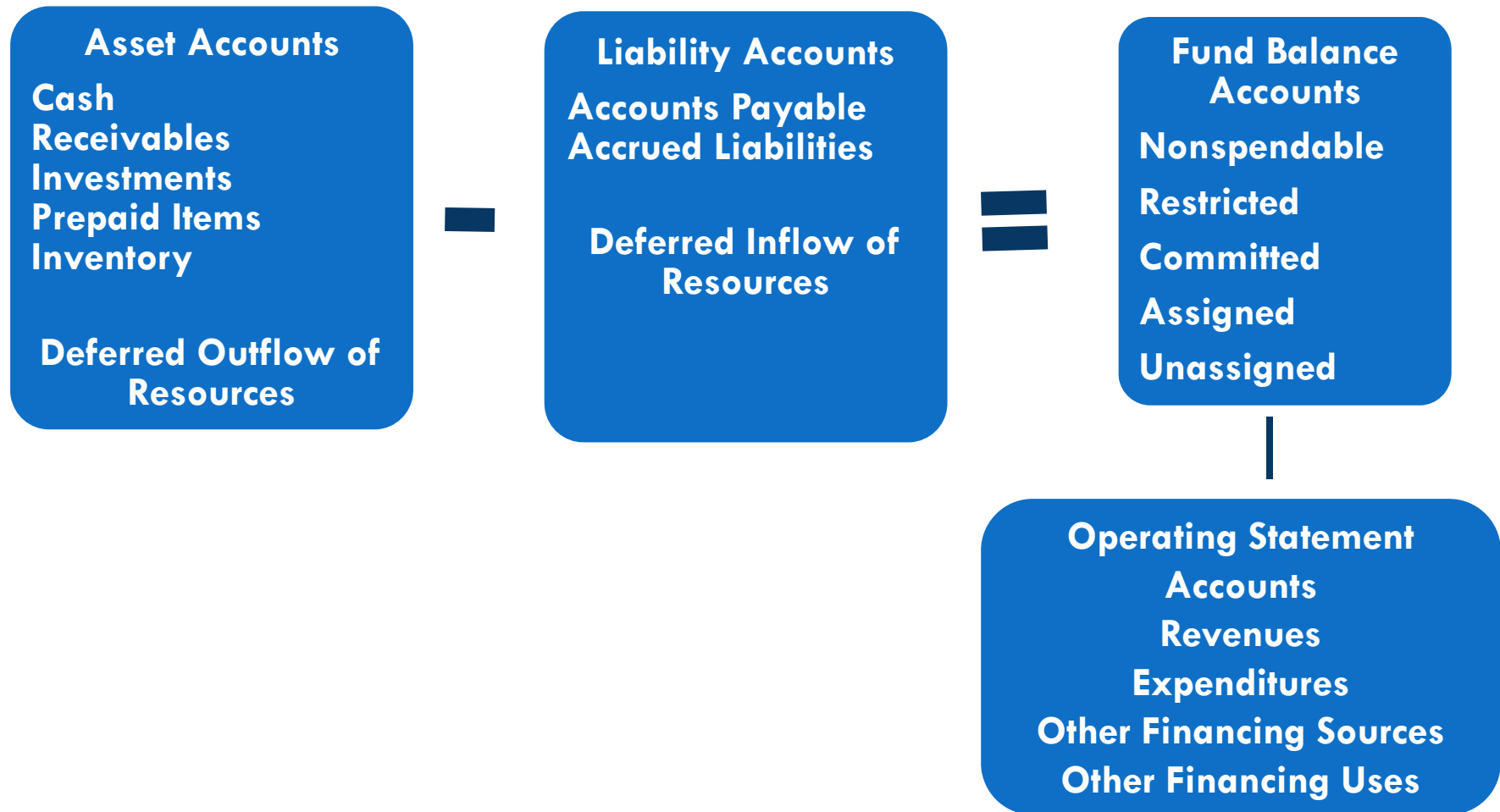
- Assets
- Liabilities
- Fund Balance/Net Position

### **Operating Statement Accounts (temporary)**

- Revenues
- Expenditures/Expenses
- Gains/Losses
- Other Financing Sources/Uses (transfers in/out)

# Balance Sheet and Operating Statement Accounts Recap

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# GAFR PRINCIPLE #11

## TRANSFER, REVENUE, EXPENDITURE AND EXPENSE ACCOUNT CLASSIFICATION

98

- Transfers should be classified separately from fund revenues and expenditures or expenses in the basic financial statements.
- Proceeds of general long-term debt issues should be classified separately from revenues and expenditures in the governmental fund financial statements.
  - Normally Other Financing Sources.

# GAFR PRINCIPLE #11

## TRANSFER, REVENUE, EXPENDITURE AND EXPENSE ACCOUNT CLASSIFICATION

99

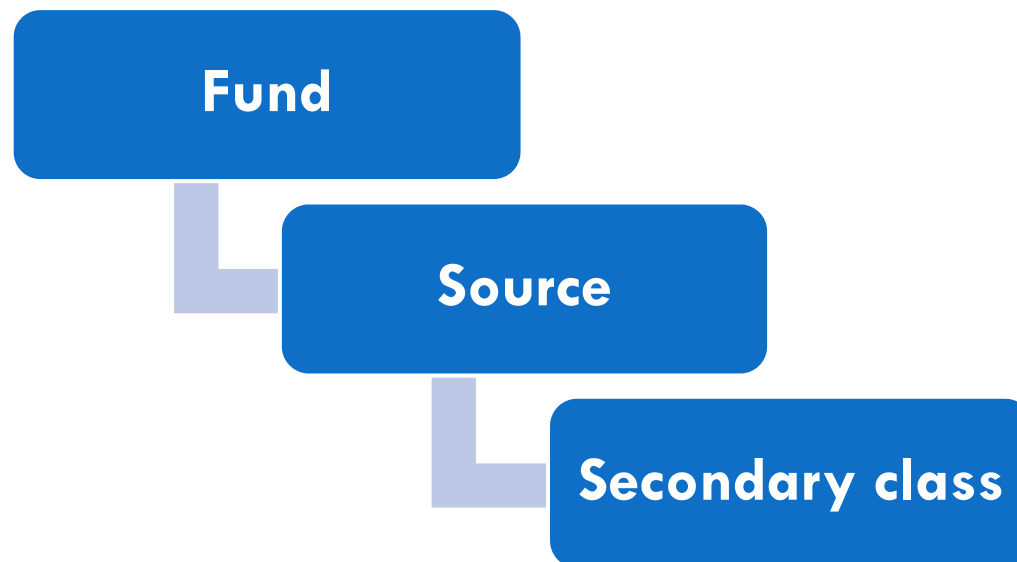
### Governmental fund

- Revenues should be classified by fund and source.
- Expenditures should be classified by fund, function (or program)  
organization unit, activity, character,  
and principal classes of objects.

# GAFR #11 - Revenue Classification

100

- Revenue usually includes all financial resource inflows— all amounts that increase the fund balance of a fund. A government may raise revenues only from sources available to it by law.
- **Revenues are classified by:**





# GAFR #11 - Expenditure Classification

101

Fund



```
graph TD; Fund[Fund] --> Function[Function or program]; Function --> Organization[Organization unit]; Organization --> Activity[Activity]; Activity --> Character[Character];
```

Function or program

Organization unit

Activity

Character

# GAFR PRINCIPLE #11

## TRANSFER, REVENUE, EXPENDITURE AND EXPENSE ACCOUNT CLASSIFICATION

102

- The Statement of Activities (government-wide) should present governmental activities at least at the level of detail required in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance
  - At a minimum by function.
- Governments should present business-type activities at least by segment.

# **GAFR PRINCIPLE #12**

## **COMMON TERMINOLOGY AND CLASSIFICATION**

103

- A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.
- Showing budgetary compliance as well as financial position is an important component of government's accountability.
- Readers of financials should be able to assess financial position, ability to provide services, debt load, etc.

# GAFR PRINCIPLE #13

## ANNUAL FINANCIAL REPORTS

104

- An annual comprehensive financial report (ACFR) should be prepared and published, covering all activities of the primary government (including its blended component units) and providing an overview of all discretely presented component units of the reporting entity.
- **LEAs are not required to prepare a ACFR however their reports must provide:**
  - Management Discussion and Analysis
  - Government-Wide Financials
  - Fund Financials
  - Notes to the Financial Statements
  - Required Supplementary Information other than MD&A

# Three Sections of a ACFR

105

## 1. Introductory Section

- Letter of Transmittal – should cite legal and policy requirements for the report
- Description of the government
- Normally from the Chief Financial Officer

## 2. Financial Section

- Auditor's Report
- *Management Discussion and Analysis\**
- *Basic Financial Statements\**
- *Required Supplementary Information\**
- Other Supplementary Information

***\*Minimum requirements for general purpose external financial reporting***

# Sections of a ACFR (continued)

106

## 3. Statistical Section

- Tables and charts showing demographic and economic data
- Financial trends
- Fiscal capacity
- Operating information of the government in the detail needed by readers who are more than casually interested in the activities of the government.

# **GAFR PRINCIPLE #13**

## **ANNUAL FINANCIAL REPORTS**

107

From the Financial Section of the ACFR, the Basic financial statements include:

- Management's Discussion and Analysis
- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the financial statements
- Required Supplementary Information (RSI)

# Management Discussion and Analysis (MD&A)

108

- **GASB 37 guidance** - SLG management is to provide, in plain terms, an overview of the government's financial activities and position.
- Part of RSI and must include:
  - Brief discussion of financial statements.
  - Condensed financial information from the govt-wide statements comparing CY with PY
  - Analysis of overall financial position and results of operations
    - Has financial position improved or deteriorated?



# Management Discussion and Analysis (MD&A) (continued)

109

- An analysis of balances and transactions of individual funds.
- An analysis of significant variations between original and final budget amounts.
- Descriptions of significant capital asset and long-term debt activity during the FY.
- Description of any known facts, decisions, or conditions that would have a significant effect on the government's financial position or results of operations. (GASB 37)

# Interim Financial Statements and Annual Budgets

110

- School Fiscal Accountability Act (2006-196) requires LEA to post monthly financial reports and annual school budgets on the local school board's website.
- Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes.
- Local superintendents are required to provide monthly financial reports, monthly check register report, and other information for the local boards of education as required by the Act No. 2006-196.
  - Exhibit F-I-A – Exhibit F-III-C
  - Should be an agenda item for the School Board meeting and posted online
  - Actual reports should tie back to Trial Balance
- Year-end financial information should be published in your local newspaper per Act 2006-196.

# Note Disclosures

111

- Integral part of the basic financial statements
- First note is summary of significant accounting policies including
  - Brief description of component units and relationships
  - Descriptions of activities of major funds, internal service funds, and fiduciary fund types
  - Discussion of financial statements and the measurement focus and basis of accounting used in the government-wide statements

# Note Disclosures (continued)

112

- Policy for capitalizing assets and for estimating the useful life of assets
- Description of the type of transactions included in program revenues and the policy for allocating indirect expenses to functions in statement of activities
- Other note disclosures should include description of cash deposits; investments; contingent liabilities; outstanding encumbrances; effects of events after date of financials; annual pension/OPEB costs and net pension obligation; debt service requirements; etc.

# Basic Financial Statements

## Overall Objectives

113

- **Improve Fiscal Accountability:**
  - Focus on major individual funds
  - Focus on individual fund budgets
  - Provide original budget data
- **Improve Operational Accountability:**
  - Economic Measurement of Government Activities
  - Provide Government-Wide Statements
  - Provide Management's Discussion and Analysis

114

## GASB Update

# IMPLEMENTATION DATES FOR SLG GOVERNMENTS

115

| <b>GASB Statements</b>  | <b>Effective for Fiscal Period Beginning After</b> | <b>September 30<sup>th</sup> FY End</b> |
|-------------------------|--|---|
| GASB 94                 | June 15, 2022                                      | FY 2023                                 |
| GASB 95                 | Temp relief due to COVID-19                        | Postponed GASB 87 to FY 2022            |
| GASB 96                 | June 15, 2022                                      | FY 2023                                 |
| GASB 97                 | June 15, 2021                                      | FY 2022                                 |
| GASB 98<br>CAFR to ACFR | Ending After<br>December 15, 2021                  | FY 2022                                 |
| GASB 99                 | June 15, 2022 (Leases, PPPs & SBITAs)              | FY 2023                                 |
| GASB 100                | June 15, 2023                                      | FY 2024                                 |
| GASB 101                | December 15, 2023                                  | FY 2025                                 |

# GASB 94, PPPs & APAs

116

- GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
  - ▣ Issued March 2020
  - ▣ Effective Date: Fiscal years beginning after June 15, 2022 (FY 2023)
- PPPs – agreements between government and another party engaged in providing services to government's constituents
  - ▣ Toll roads concessions, community post offices, urban renewal projects, delivery of fiber internet
- Largest P3 – University of California, Merced
  - ▣ \$1.35 billion design, build, finance, operate and maintain (DBFOM) project; APA project
  - ▣ Student housing, classrooms, teaching and research space, student wellness, counseling facilities and recreational spaces for up to 10,000 students



# Public Private Partnerships & APAs

117



# GASB 94, PPPs & APAs

118

- PPP – an arrangement in which a government (transferor) contracts with an operator (governmental or nongovernmental) **to provide public services** by conveying control of a right to operate a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction
- Generally result in government transferring obligation to provide certain public services to an external entity

# GASB 94, PPPs & APAs

119

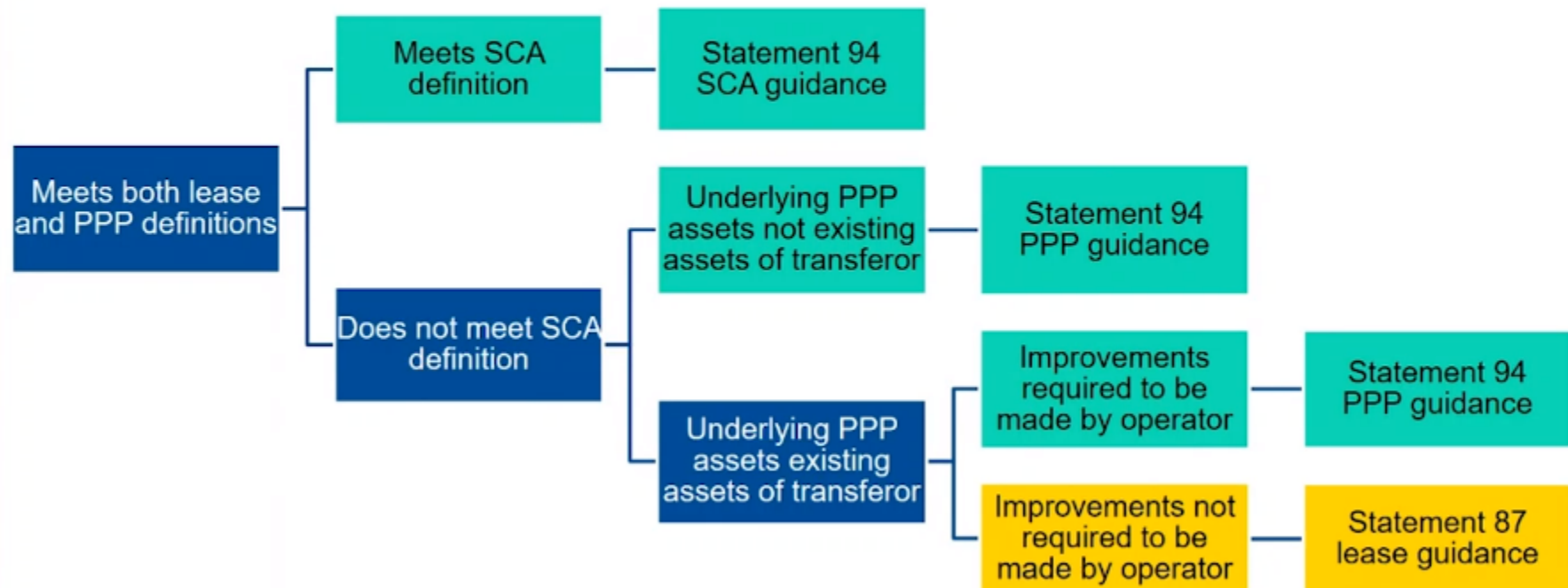
- Some PPPs are Service Concession Arrangements (SCAs) – a PPP in which all are met:
  - ▣ Transferor conveys right and obligation to provide public services through use and operation of underlying PPP asset in exchange for significant consideration (e.g. up-front payment, installment payments, new facility or improvements to existing facility)
  - ▣ Operator compensated by fees **from third parties**; excludes collect & remit arrangements
  - ▣ Transferor determines or has ability to modify or approve which services are provided, to whom services are provided and prices or rates charged for services
  - ▣ Transferor entitled to significant residual interest in the service utility of underlying PPP asset at end of agreement
  - ▣ Ex. Government transfers operation of toll road; government receives up-front payment and operator collects tolls; toll road reverts back to government at end of agreement

# GASB 94, PPPs & APAs

120

- PPPs that meet definition of a lease should apply GASB 87 if
  - ▣ Existing assets of transferor are the only underlying PPP assets
  - ▣ Improvements are not required to be made by operator to existing assets
  - ▣ PPP does not meet definition of SCA
- Big difference – PPPs are required to provide public service

# Lease or PPP?



20

# GASB 94, PPPs & APAs

122

- Accounting for PPPs is determined by source of the underlying asset

## **Type I**

Underlying asset is an existing asset of transferor, with or without operator improvements

## **Type II**

Underlying asset is new asset purchased or constructed by the operator and PPP is a SCA

## **Type III**

Underlying asset is new asset purchased or constructed by the operator and PPP is not a SCA

# GASB 94, PPPs & APAs

123

- Transferor recognition and measurement for PPPs
  - Recognize a receivable for installment payments to be received
    - Measure at the present value of PPP payments expected to be received during PPP term, reduced by provision for estimated uncollectible amounts; using rate transferor charges operator
    - Amortize discount to interest revenue
  - Include
    - Fixed payments
    - Variable payments based on index or rate using index or rate at commencement
    - Variable payments fixed in substance
      - Minimum payment for payments based on usage
    - Residual value guarantee payments fixed in substance
      - If required & amount can be reasonable estimated
  - Remeasure receivable under certain circumstances

# GASB 94, PPPs & APAs

124

- Transferor recognition and measurement for PPPs
  - Type I: If underlying asset is existing asset → Continue to recognize underlying PPP asset
  - If underlying asset is purchased or constructed
    - Type II: SCA → Recognize asset when placed into service at acquisition value (how much would it cost govt to purchase)
    - Type III: Not SCA → Recognize receivable for asset based on operator's estimated carrying value of asset as of expected date of transfer in ownership (Operator's historical cost less accumulated at expected date of transfer)
  - Recognize an asset for improvements made by operator to PPP asset at acquisition value when improvements placed into service



# GASB 94, PPPs & APAs

125

- Transferor recognition and measurement for PPPs
  - Recognize a deferred inflow of resources as the sum of the following assets when related assets are recognized
    - Amount of initial measurement of receivable for installment payments
    - PPP payments received from operator at commencement
    - Amount of initial measurement for PPP asset purchased or constructed under SCA
    - Amount of initial measurement for improvements to underlying PPP asset
    - Amount of initial measurement of receivable for PPP asset purchased or constructed under PPP that not a SCA
  - Recognize deferred inflow of resources as inflow of resources (revenues) in systematic and rational manner over PPP term

# GASB 94, PPPs & APAs

126

- Availability Payment Arrangements
  - Government compensates an operator for activities that may include designing, constructing, financing, maintaining or operating an underlying nonfinancial asset for a period of time
  - Payments are based on asset's **availability for use** rather than on tolls, fees, or similar revenues or other measures of demand
  - In an APA, government procures a capital asset or service, rather than receiving compensation to allow another to provide public services

# GASB 94, PPPs & APAs

127

- Accounting and reporting for APAs
  - Components of APA related to the design, construction or financing of a nonfinancial asset in which asset transfers to government at the end of agreement
    - Report as a financed purchase of underlying nonfinancial asset
  - Components of APA related to providing services for the operation or maintenance of asset
    - Account for as outflows of resources (expense) by the government in the period to which payments relate

# GASB 94, PPPs & APAs

128

- Availability Payment Arrangement Example
- Prince George County Public Schools, Maryland
  - First district in the US to accelerate the delivery of a group of public K-12 school buildings
  - Through a design-build-finance-maintain (DBFM) Alternative Financing Model
  - Expected to save \$174 million in deferred maintenance and construction costs & build new schools faster
  - *A Guide to K-12 Public Private Partnerships* – Brailsford & Dunleavy
    - <https://p3resourcecenter.com/wp-content/uploads/2021/08/A-Guide-To-K-12-P3-Partnerships.pdf>

# GASB 96, Subscription-Based Information Technology Arrangements

129

- Issued May 2020
- Effective Date: Fiscal years beginning after June 15, 2022 (FY 2023); Applied retroactively by restating all periods presented
- Statement:
  - ▣ Defines a Subscription-Based Information Technology Arrangement (SBITA)
  - ▣ Establishes that a SBITA results in a right-to-use subscription asset (intangible) & corresponding liability
  - ▣ Provides capitalization criteria for outlays other than subscription payments, including implementation costs
  - ▣ Requires note disclosures regarding a SBITA
  - ▣ In general, standards for SBITAs are based on standards established in Statement 87, *Leases*
- Requires recognition of Subscription Asset and Subscription Liability

# GASB 96, SBITAs

130

- Prior to this Statement, there was no accounting or financial reporting guidance for SBITAs
- Objective of GASB 96:
  - Better meet the information needs of FS users by:
    - Establishing uniform accounting and financial reporting guidance for SBITAs
    - Improving comparability among governments
    - Enhance understandability, reliability, relevance and consistency of information about SBITAs

# GASB 96, SBITAs

131

## □ Exclusions

- Contracts that convey control of right to use another party's combination of IT software **and** tangible capital assets that meet definition of lease under GASB 87 **IF** software component insignificant when compared to cost of underlying tangible capital asset
- Governments that provide right to use their IT software and associated tangible assets to other entities through SBITAs
- Contracts subject to GASB 94, PPPs & APAs
- Licensing arrangements that provide a perpetual license to use vendor's software (GASB 51, Intangible Assets)

# GASB 96, SBITAs

132

## □ Definition

- Contract that conveys control of the right to use another party's (SBITA vendor's) IT software, alone or in combination with tangible capital assets
- Excludes contracts that solely provide IT support services
- Includes contracts that contain **both** a right-to-use IT asset component and an IT support services component



# GASB 96, SBITAs

133

- Subscription Term – period during which government has a noncancellable right to use underlying IT asset, plus the following:

- ▣ Periods covered by govt's option to extend
- ▣ Periods covered by govt's option to terminate
- ▣ Periods covered by vendor's option to extend
- ▣ Periods covered by vendor's option to terminate

Test: Govt determines it is ***Reasonably Certain*** to extend OR terminate

- Periods for which both govt and vendor have option to terminate without permission from other party are excluded from term (or where both have to agree to extend)

# GASB 96, SBITAs

134

- Government should reassess term if one or more of the following occur:
  - Govt or SBITA vendor exercises an option that was previously determined reasonably certain WOULD NOT
  - Govt or SBITA vendor does not exercise option that was previously determined reasonably certain WOULD
  - Event specified in SBITA contract that requires extension or termination takes place

# GASB 96, SBITAs

135

## □ Short-term SBITAs

- Maximum possible term of 12 months or less
- Including options to extend, regardless of their probability of being exercised
- Periods for which both govt & SBITA vendor have an option to terminate without permission from other party s/b excluded from term
- Recognized short-term subscription payments as outflows (expenses)

# GASB 96, SBITAs

136

- Recognition and measurement for SBITAs other than Short-Term SBITAs
  - At commencement of subscription term, government should recognize:
    - Subscription liability
    - Intangible right-to-use asset (subscription asset)

# GASB 96, SBITAs

137

- Subscription liability measured at present value of subscription payments & should include:
  - Fixed payments
  - Variable payments that depend on index or rate, measured using index or rate as of commencement
  - Variable payments fixed in substance
    - Example: payments based on usage, but there is a minimum required payment each period
  - Payments for penalties for terminating SBITA, if included in subscription term
  - Subscription contract incentives receivable from vendor
  - Any other payments to SBITA vendor reasonably certain of being required

# GASB 96, SBITAs

138

- Subscription liability
  - Discounted using interest rate vendor charges govt
  - If not readily determinable, use government's incremental borrowing rate
    - Estimate of interest rate that would be charged for borrowing subscription payments during term
  - Government should calculate amortization of discount on the liability and report as outflow of resources (interest expense)
  - Subscription payments allocated first to accrued interest liability and then to subscription liability

# GASB 96, SBITAs

139

- **Remeasure liability** if one or more of the following changes occur (and expected to significantly affect amount of liability)
  - ▣ Change in subscription term
  - ▣ Change in estimated amounts for subscription payments
  - ▣ Change in interest rate vendor charges govt
  - ▣ Contingency for variable payments is resolved and those payments will now be made
  - ▣ IF liability remeasured, liability should also be adjusted for any change in index or rate used to determine variable payments (don't remeasure solely for rate/index change)
  - ▣ Update discount rate as part of remeasurement (but not solely for change in incremental borrowing rate)

# GASB 96, SBITAs

140

## □ Subscription Asset

- Measure subscription asset as the sum of the following, less any SBITA vendor incentives:
  - Amount of the initial measurement of subscription liability
  - Payments associated with SBITA contract made to vendor at commencement of term
  - Capitalizable initial implementation costs – see next slide
- Subscription asset should be amortized over shorter of the subscription term or useful life of the underlying IT asset
  - Reported as outflow of resources (amortization expense)
- Subscription asset generally should be adjusted by same amount of liability when liability is remeasured



# GASB 96, SBITAs

141

- Outlays other than subscription payments:
- Preliminary Project Stage – Expense as incurred
  - ▣ Evaluating alternatives, determining needs, selecting vendor
- Initial Implementation Stage – Capitalize as part of the subscription asset (unless short-term SBITA)
  - ▣ Configuration, coding, testing and installation
- Operation and Additional Implementation Stage – Expense as incurred
  - ▣ Maintenance, troubleshooting, other activities related to ongoing access
- Training costs – Expense as incurred, regardless of stage

# GASB 96, SBITAs

142

- Financial statements prepared using Current Financial Resources Measurement Focus
  - Report expenditure and other financing source in period subscription asset is initially recognized
    - Measured at subscription liability
  - Subscription payments account for consistent with debt service payments on long-term debt
    - Debit expenditure; credit cash

# GASB 96, SBITAs

143

- Notes to Financial Statements
  - ▣ General description of SBITAs
  - ▣ Total amount of subscription assets, and related accumulated amortization; separate from other capital assets
  - ▣ Amount of outflows for variable payments and/or other payments not included in measurement of liability
  - ▣ Principal and interest requirements, separately, for each of five subsequent years; five-year increments thereafter
  - ▣ Commitments under SBITAs before commencement
  - ▣ Components of any loss associated with impairment

# GASB 96, SBITAs

144

- How to prepare?
  - Similar approach to GASB 87, Leases
  - Prepare an inventory of all SBITAs
    - Review contracts awarded & expenditure details for related object codes
  - May be able to use GASB 87 implementation software for GASB 96

# GASB 98, The Annual Comprehensive Financial Report

145

- Term *comprehensive annual financial report* replaced with *annual comprehensive financial report* (ACFR)
- Effective: Fiscal years ending after December 15, 2021

# GASB 99, Omnibus 2022

146

- Issued April 2022
- Effective Date
  - ▣ Requirements related to leases, PPPs and SBITAs effective for fiscal years beginning after June 15, 2022 (FY 2023)
- Omnibus – of, relating to, or providing for many things at once
  - ▣ Omnibus bill – proposed law that covers a number of diverse or unrelated topics
- Addresses practice issues identified during implementation and application of certain GASB Statements

# GASB 99, Omnibus 2022

147

- Leases, PPPs & SBITAs
- Additional guidance on determining contract term
  - ▣ Exclude from term options to terminate where both parties can terminate without permission from other party
  - ▣ Generally exclude options to terminate that depend on action/inaction of either party (e.g. default on payments)
  - ▣ Exclude periods in lease term after which a purchase option is reasonably certain to be exercised (considered option to terminate)
- Additional guidance on calculating contract receivables and liabilities, respectively
  - ▣ Include variable payments that depend on index or rate or that are fixed in substance
  - ▣ Exclude all other variable payments – those based on future performance or usage

# GASB 99, Omnibus 2022

148

- Additional guidance on remeasurement of contract receivable or liability
  - Don't remeasure solely for change in index/rate used for variable payments
    - Original Statement language “not required to be remeasured”
    - Omnibus language “should not be remeasured”
  - Don't remeasure for change in incremental borrowing rate (when used for discount rate)
  - Remeasure with change in rate charged by one party to the other if used for discount rate (lessor to lessee; SBITA vendor to government)



# GASB 99, Omnibus 2022

149

- Reassess term for short-term leases & SBITAs
  - If reassessed term is greater than 12 months, no longer short-term; use original inception date
  - Term should be assessed beginning at date of modification for purposes of measuring asset or liability
- Omnibus 2022 other topics
  - Financial Guarantees – guarantee of obligation of legally separate entity or individual
  - Other Derivative Instruments – Neither investment or hedging
  - Replacement of LIBOR

# GASB 100, Accounting Changes and Error Corrections

150

- Issued June 2022
- Effective: Fiscal years beginning after June 15, 2023 (FY 2024)
- Statement establishes accounting and financial reporting requirements for:
  - Accounting changes
    - 1) Change in accounting principle; 2) change in accounting estimate; 3) change to or within financial reporting entity
  - Correction of an error in previously issued financial statements (error correction)

# GASB 100, Accounting Changes and Error Corrections

151

## Change in Accounting Principle What it is...

- Change from one GAAP principle to another GAAP principle; newly adopted principle preferable (but both acceptable)
  - ▣ Must be more reliable, relevant, timely, consistent, comparable or understandable)
- Implementation of new authoritative pronouncements

## Change in Accounting Principle What it's not...

- Initial adoption and application to transactions or other events that are:
  - ▣ Clearly different in substance from those previously occurring
  - ▣ Are occurring for the first time
  - ▣ Were previously immaterial
- Change from applying non-GAAP to applying GAAP
  - ▣ **Error!**

# GASB 100, Accounting Changes and Error Corrections

152

- Change in Accounting Estimate
  - ▣ Amounts subject to measurement uncertainty
  - ▣ Outputs determined based on inputs such as data, assumptions and measurement methodologies
  - ▣ Change occurs when inputs change
  - ▣ Justified on the bases that the new methodology is preferable; except in cases where change is required

## Examples:

Change in method used to depreciate capital assets; useful life estimate

Change in valuation technique used to measure fair value

Change in methodology or assumptions for allowance for uncollectible AR

# GASB 100, Accounting Changes and Error Corrections

153

- Change to or Within Financial Reporting Entity
  - ▣ Addition or removal of a fund resulting from movement of continuing operations (not new operations)
  - ▣ Change in fund's presentation as major or nonmajor
  - ▣ Addition or removal of a component unit
  - ▣ Change in component unit's presentation as blended or discretely presented
- Error Correction
  - ▣ Results from mathematical mistakes, mistakes in application of accounting principles, or oversight or misuse of facts that existed at the time financial statements were issued

# GASB 100, Accounting Changes and Error Corrections

154

- Change in Accounting Principle
  - Retroactively restate financial statements for all prior periods presented
  - Restate beginning net position for earliest period presented to report cumulative effect on periods prior to those presented
- Notes to Financial Statements
  - Nature of the change
    - FS line items affected; Identify new pronouncement implemented
  - Reason for change except for new pronouncement
  - Why application of new standard is preferable

# GASB 100, Accounting Changes and Error Corrections

155

- Change in Accounting Estimate
  - Report prospectively in the reporting period in which the change occurs
- Notes to Financial Statements
  - Nature of change in accounting estimate
    - Identification of financial statement line items affected
  - If change in measurement methodology
    - Reason for the change
    - Explanation for why new methodology is preferable, except when required

# GASB 100, Accounting Changes and Error Corrections

156

- Change to or within Financial Reporting Entity
  - ▣ Reported by adjusting current reporting period's beginning net position as if the change occurred as of the beginning of reporting period
- Notes to Financial Statements
  - ▣ Nature of change to or within reporting entity
  - ▣ Reason for the change, except for change in fund's presentation on from meeting or not meeting major fund threshold



# GASB 100, Accounting Changes and Error Corrections

157

- Error Correction
  - Retroactively restate financial statements for all prior periods presented
  - Restate beginning net position for cumulative effect of error correction of the earliest period presented
- Notes to Financial Statements
  - Date of the error and its correction
    - Periods affected by error; line items affected
    - For FS that present a single period, effect on prior period's change in net position had the error not occurred
    - For comparative FS, effect of error correction on change in net position of the prior period

# GASB 100, Accounting Changes and Error Corrections

158

## □ Notes to Financial Statements

### ■ Government should disclosure

- Effects on beginning net position, fund balance or fund net position of earliest period adjusted or restated
  - Each change in accounting principle (including implementation of new pronouncements)
  - Each change to or within financial reporting entity
  - Each error correction
- Disclosed in tabular format that reconciles beginning balances as previously reported to beginning balances as adjusted or restated
- Unless separately displayed in the financial statements

|   | 12/31/20X1<br>As Previously<br>Reported | Change to or within<br>the Financial<br>Reporting Entity (A) | Change to or within<br>the Financial<br>Reporting Entity (B) | Error Correction (C) | 12/31/20X1<br>As Restated |
|---|---|--|--|----------------------|---------------------------|
| <b>Government-Wide</b>                            |   |  |  |                      |                           |
| Governmental Activities                           | \$ 768,033                              | \$ -   | \$ -   | \$ 71,312            | \$ 839,345                |
| Business-Type Activities                          | 543,163                                 | (2,184)  | -  | -                    | 540,979                   |
| <b>Total Primary Government</b>                   | <b>\$ 1,311,196</b>                     | <b>\$ (2,184)</b>  | <b>\$ -</b>  | <b>\$ 71,312</b>     | <b>\$ 1,380,324</b>       |
| <b>Governmental Funds</b>                         |   |  |  |                      |                           |
| Major Funds:                                      |   |  |  |                      |                           |
| General Fund                                      | \$ 631,607                              | \$ -   | \$ -   | \$ -                 | \$ 631,607                |
| Fund A  | 100,922                                 | -  | -  | -                    | 100,922                   |
| Nonmajor Funds                                    | 40,486                                  | -  | -  | -                    | 40,486                    |
| <b>Total Governmental Funds</b>                   | <b>\$ 773,015</b>                       | <b>\$ -</b>  | <b>\$ -</b>  | <b>\$ -</b>          | <b>\$ 773,015</b>         |
| <b>Proprietary Funds</b>                          |   |  |  |                      |                           |
| Major Funds:                                      |   |  |  |                      |                           |
| Enterprise Fund C                                 | \$ 418,910                              | \$ -   | \$ -   | \$ -                 | \$ 418,910                |
| Enterprise Fund D                                 | 74,831                                  | (2,184)  | -  | -                    | 72,647                    |
| Nonmajor Funds                                    | 49,422                                  | -  | -  | -                    | 49,422                    |
| <b>Total Proprietary Funds</b>                    | <b>\$ 543,163</b>                       | <b>\$ (2,184)</b>  | <b>\$ -</b>  | <b>\$ -</b>          | <b>\$ 540,979</b>         |
| <b>Fiduciary Funds</b>                            |   |  |  |                      |                           |
| Pension and Other Employee Benefit Trust Funds    | \$ 3,071,227                            | \$ -   | \$ -   | \$ -                 | \$ 3,071,227              |
| <b>Discretely Presented Component Units</b>       |   |  |  |                      |                           |
| ABC Authority                                     | \$ 1,696                                | \$ -   | \$ -   | \$ -                 | \$ 1,696                  |
| QRS Foundation                                    | -                                       | 2,184  | -  | -                    | 2,184                     |
| XYZ Foundation                                    | -                                       | -  | 1,500  | -                    | 1,500                     |
| Nonmajor Component Units                          | 2,730                                   | -  | -  | -                    | 2,730                     |
| <b>Total Discretely Presented Component Units</b> | <b>\$ 4,426</b>                         | <b>\$ 2,184</b>  | <b>\$ 1,500</b>  | <b>\$ -</b>          | <b>\$ 8,110</b>           |

**12/31/X1, as previously reported**

Change from blended to discrete presentation  
 Addition of discretely presented component unit  
 Error correction

**12/31/X1, as restated**

| Reporting Units Affected by Adjustments to and Restatements of Beginning Balances |                         |                          |                 |                 |
|---|-------------------------|--------------------------|-----------------|-----------------|
| Funds   | Government-Wide         |                          | Component Units |                 |
| Enterprise Fund D   | Governmental Activities | Business-Type Activities | QRS Foundation  | XYZ Foundation  |
| \$ 74,831   | \$ 768,033              | \$ 543,163               | \$ -            | \$ -            |
| (2,184)   | -                       | (2,184)                  | 2,184           | -               |
| -   | -                       | -                        | -               | 1,500           |
| -   | 71,312                  | -                        | -               | -               |
| <u>\$ 72,647</u>  | <u>\$ 839,345</u>       | <u>\$ 540,979</u>        | <u>\$ 2,184</u> | <u>\$ 1,500</u> |

# GASB 100, Accounting Changes and Error Corrections

161

- Required Supplementary Information and Supplementary Information
  - Change in accounting principle or reporting entity
    - Reporting periods should be adjusted or restated in same manner as FS
    - For prior periods earlier than those presented in FS, RSA or SI should not be restated
    - If prior-period information presented in RSI or SI is not consistent with current-period information, explanation should be provided
    - Include reference to related note disclosure in MD&A

# GASB 100, Accounting Changes and Error Corrections

162

- Required Supplementary Information and Supplementary Information
  - Error correction
    - Restate for periods presented in financial statements
    - If error affects periods earlier than those presented in FS, all affected information should be corrected by restating information for those periods in RSI or SI
    - Information affected should be identified as restated or not restated, as appropriate
    - Explanation of error should be provided

# GASB 101, Compensated Absences

163

- Issued June 2022
- Effective: Fiscal years beginning after December 15, 2023 (FY 2025)
- Background – Replaces Statement 16
  - Lack of guidance for certain types of leave
  - Inconsistent application of those standards
- Statement establishes standards of accounting and financial reporting for:
  - Compensated absences
  - Associated salary related payments

# GASB 101, Compensated Absences

164

- Compensated absence is leave for which an employee may receive one or more
  - ▣ Cash payment when leave is used for time off
  - ▣ Other cash payments, such as payment for unused leave upon termination of employment
  - ▣ Noncash settlements, such as conversion to defined benefit postemployment benefits
  - ▣ Payment could occur during employment or upon termination of employment
  - ▣ Examples: vacation (annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, certain types of sabbatical leave (employee not required to perform any significant duties for government)



# GASB 101, Compensated Absences

165

- Recognition and measurement
  - Liabilities should be recorded (using economic resources measurement focus) for:
    - Leave that has not been used
    - Leave that has been used but not yet paid or settled
    - Aggregation not required
      - Accrued payroll can be used for leave used but not paid
    - Include applicable salary-related payments

# GASB 101, Compensated Absences

166

- Liability should be recognized for leave that has not been used if all of the following are true:
  - Leave is attributable to services already rendered
    - Employee has performed services required to earn leave
  - Leave accumulates
    - Carried forward from reporting period in which it was earned to a future reporting period
  - Leave is ***more likely than not*** to be used for time off or otherwise paid in cash or settled through noncash means
    - A likelihood of more than 50 percent
    - Change from *probable* in Statement 16
    - GASB believes application of probable could be interpreted as a high threshold; may result in understatement of liability

# GASB 101, Compensated Absences

167

- Exclude from recognition as liability
  - Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits
  - Compensated absences dependent upon occurrence of sporadic events
    - Parental leave, military leave, jury duty leave
    - Recognize liability when leave commences
  - Unlimited leave & holiday leave taken on a specific date
    - Recognize liability when leave is used

# GASB 101, Compensated Absences

168

- Liability for compensated absences
  - ▣ Measured using employee's pay rate as of the date of FS
  - ▣ If some or all of leave is MLTN to be paid at a rate different from employee's pay rate, government should measure liability using that pay rate
  - ▣ Leave not attributable to specific employee (e.g. shared employee leave pool), measure liability using estimated pay rate representative of employee group
  - ▣ Leave MLTN to be settled through noncash means, measure liability based on settlement amount
  - ▣ Changes in measurement of liability, recognized in period of change

# GASB 101, Compensated Absences

169

- Salary-related payments
  - Obligations that a government occurs related to providing leave in exchange for services rendered
    - Ex. Employer share of Social Security and Medicare taxes
  - Government should include in measurement of liability for compensated absences salary-related payments that are directly and incrementally associated with leave
    - Depends on amount of salary to be paid
    - Payment in addition to the payment for the salary
  - SRPs related to pension or OPEB
    - Pension/OPEB expense or liability; not included in comp. abs.

# GASB 101, Compensated Absences

170

## □ Notes to Financial Statements

- For the purposes of the long-term liabilities disclosure, government should present either:
  - The separate increases or decreases OR
  - A net increase or a net decrease in its liability for compensated absences
    - Change from GASB 34 which required separate disclosure of increases and decreases in long-term liability for comp abs
- No longer required to disclose which governmental funds typically have been used to liquidate liability for comp abs

# Other GASB Current Technical Agenda Projects/Pre-Agenda Research Activities [PAR]

171



## Technical Agenda Overview

Revised January 30, 2023

| CONCEPTUAL FRAMEWORK PROJECTS     | Current Stage                     | Timing |
|-----------------------------------|-----------------------------------|--------|
| Conceptual Framework: Recognition | Exposure Draft<br>Redeliberations |        |

| COMPREHENSIVE PROJECTS          | Current Stage                        | Timing |
|---------------------------------|--------------------------------------|--------|
| Financial Reporting Model       | Exposure Draft<br>Redeliberations    |        |
| Revenue and Expense Recognition | Preliminary Views<br>Redeliberations |        |

| MAJOR PROJECTS  | Current Stage         | Timing |
|---|-----------------------|--------|
| Going Concern Uncertainties and Severe Financial Stress | Initial Deliberations |        |

| PRACTICE ISSUES                       | Current Stage                     | Timing |
|---------------------------------------|-----------------------------------|--------|
| Classification of Nonfinancial Assets | Initial Deliberations             |        |
| Implementation Guide Update—2023      | Exposure Draft<br>Redeliberations |        |
| Risks and Uncertainties Disclosures   | Exposure Draft<br>Redeliberations |        |

| PRE-AGENDA RESEARCH ACTIVITIES |
|--------------------------------|
| Capital Assets                 |
| Subsequent Events              |

# **GASB Current Major Projects - Financial Reporting Model Improvements – Reexamination of GASB 34**

- **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:** ED expected Summer 2020 with comment period and public hearings through Fall 2020



# Financial Reporting Model Due Process

173

1800+

Webex participants sign up to get more information. A new GASB record!



20k+

view related Social Media.



150

submit comment letters to the GASB.



3.6k

download proposal from our website.



128

stakeholders attend events in person, with over half sharing their views with the Board.

# Concerns with Existing Reporting of Governmental Funds

174

Lack of conceptual consistency in recognition of assets and liabilities

Lack of conceptual 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)

- **Focuses on financial resources rather than on economic resources**
- **Shorter time perspective than information in government-wide financial statements**

Lack of consistency in short-term perspective

# Financial Reporting Model Improvements

175

- Exposure Draft Issued June 2020
- Public comments were due in February 2021
- Followed by public hearings in March and April 2021
- Available at:
  - <https://gasb.org/exposedocuments>
  - GASB Codification Instructions Working Files
    - Include proposed revisions to GASB codification
- Final Statement anticipated no earlier than December 2023

# Financial Reporting Model Improvements

176

- Effective Date and Transition
  - Effective based on government's total annual revenues for first fiscal year beginning after June 15, 2022 (FY 2023)
  - Total revenues of \$75 million or more → Fiscal years beginning after June 15, 2024 (FY 2025)
  - Total revenues less than \$75 million → Fiscal years beginning after June 15, 2025 (FY 2026)
  - Earlier application is encouraged

# Financial Reporting Model Improvements

177

- Objective: Improve key components of the financial reporting model
- Purpose: Enhance effectiveness by providing information essential for decision making and assessing government's accountability; address certain application issues

# Financial Reporting Model Improvements

178

- Statement establishes or modifies existing accounting and financial reporting guidance requirements:
  - ▣ Management's discussion and analysis
  - ▣ Unusual or infrequent items
  - ▣ Presentation of governmental fund financial statements
  - ▣ Short-term financial resources measurement focus and accrual basis of accounting in governmental funds

# Financial Reporting Model Improvements

179

- Statement establishes or modifies existing requirements related to the following:
  - ▣ Proprietary funds
    - Operating vs. Nonoperating
  - ▣ Other Items
    - Component unit presentation
    - Budgetary comparison information
    - Financial trends information

# Financial Reporting Model Improvements

180

- Management's Discussion & Analysis
  - Potential improvements identified in pre-agenda research:
    - Reducing boilerplate information
      - Specific information that generally is the same from government to government
    - Increasing focus on explanation of reasons for changes from year to year in government-wide and fund FS
    - Reducing repetition within MD&A
    - Clarifying requirements related to currently known facts, decisions or conditions



# Financial Reporting Model

## Improvements

181

- MD&A precedes basic financial statements and is part of required supplementary information
- Should provide objective and easily readable analysis of government's financial activities
  - ▣ Based on currently known facts, decisions or conditions
- Financial managers knowledgeable about:
  - ▣ Transactions and events in report
  - ▣ Fiscal policies
  - ▣ Other conditions that may significantly effect financial position or results of operations
- Written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting
  - ▣ Include explanations and interpretations improve understandability

# Financial Reporting Model Improvements

182

- Should discuss current-year balances and results in comparison with prior year, emphasis on current year
  - ▣ Analysis should assist user in understanding WHY
- Avoid unnecessary duplication
  - ▣ Explanations should not be repeated after presented initially; referenced rather than duplicated
- Focus on primary government
  - ▣ When appropriate, refer users to component unit's separately issued FS

# Financial Reporting Model Improvements

183

- Information confined to these topics
  - Introduction – overview of FS; focus on significant differences in information provided by each; measurement focus & basis of accounting
  - Financial Summary – condensed financial information comparing CY to PY
    - Present information to support analysis of financial position and results of operations
    - 16 elements – total assets & deferred outflows; total liabilities & deferred inflows; total net position; program revenues by source; change in net position; etc.

# Financial Reporting Model Improvements

184

## ■ Detailed analysis

- Analysis to assist users in assessing whether financial position has improved or deteriorated
- **Analysis should explain reasons for significant changes and indicate magnitude of those changes**
- Include facts, decisions, or conditions about which user may not be aware

## ■ Significant Capital Asset and Long-Term Debt Activity

- Discussion of significant additions and disposals of capital assets
- Significant long-term debt, lease, PPP and SBITA activity; agreements entered into, changes in credit ratings, changes to debt limitations

# Financial Reporting Model Improvements

185

- Currently Known Facts, Decisions, or Conditions
  - GASB provided examples of specific types of information that should be included; examples rather than requirements; less boilerplate and allows managers to conform information to specifics of their government
  - Expected to have significant effect on financial position; expected to produce significant differences from current period
  - Trends in economic and demographic data; changes in population, enrollment
  - Changes from subsequent year's budget; appropriation levels, tax rates; planned spending
  - Actions taken by government after end of reporting period related to postemployment benefit liabilities, capital asset improvement plans, long-term debt, lease agreements, PPPs and SBITAs
  - Actions taken by other parties that will affect government
    - New legislation or regulations

# Financial Reporting Model Improvements

186

- Boilerplate Information
  - Only MD&A requirement that generally would result in same presentation for all governments
    - Present a brief discussion of the basic financial statements, including relationship of the statements to each other and differences in information they provide
- Focus on Explanations
  - Explanations of reasons for changes from year to year were not thorough enough
  - Previous requirements should be modified to emphasize the focus on detailed analysis of comparisons, including magnitude of the reasons for the changes to improve understandability

# Financial Reporting Model Improvements

187

- Unusual or Infrequent Items
  - Event/transaction abnormal and unrelated to ordinary or typical activities
  - Event/transaction would not be reasonably expected to recur in foreseeable future
- ▣ Present individually unusual OR infrequent items as the last presented flow(s) of resources prior to net change in resource flows; Statement 34 required unusual AND infrequent
- ▣ Display unusual or infrequent items as the last presented flow of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.
- ▣ Disclose the program or function or identifiable activity to which an unusual or infrequent item is related; whether within the control of management

# Financial Reporting Model Improvements

188

- Measurement Focus and Basis of Accounting
  - Short-term financial resources measurement focus and accrual basis of accounting
  - Measurement focus – what items should be reported
  - Basis of accounting – when those elements are recognized in the financial statements
  - Short-term financial resources
    - Incorporates inflows and outflows of short-term financial resources, deferred outflows, liabilities and deferred inflows
  - Elements of FS arising from short-term transactions and other events are recognized **as they occur**
  - Elements of FS arising from long-term transactions or other events are recognized **when they are due**



# Concepts to Consider for Recognition

189

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.

# Proposal for Recognition Framework

190

## Two Measurement Focuses

### **Economic Resources**

(applied in government-wide, proprietary fund, and fiduciary fund financial statements)

### **Short-Term Financial Resources**

(would replace current financial resources in the governmental funds)

# Proposal - Recognition in Governmental Funds

| Short-Term Financial Resources Measurement Focus   |   |
|--|---|
| Items Arising from Short-Term Transactions and Events  | Items Arising from Long-Term Transactions and Events  |
| Those that normally are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely <i>within one year</i> from the inception of the transaction or other event | Those that normally are due to convert to or require the use of cash (or other financial assets) in periods that <i>extend beyond one year</i> from the inception of the transaction or other event |
| Recognized when the underlying transaction occurs  | Recognized when the payments to be received or made become <i>due</i>   |

# Financial Reporting Model

## Improvements

192

- Events recognized in financial statements
  - ▣ Transactions, which are external events between a government and another party or parties that have financial consequences for the government
  - ▣ Other events which include internal events (allocation of resources to individual funds) and external events (changes in fair value)
- Financial assets include cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash
- All liabilities in this measurement focus are financial liabilities

# Financial Reporting Model Improvements

193

- Recognition is based on whether transactions or other events are short-term or long-term
- Determined by the period of time that lapses between inception of the transaction and conclusion of the transaction
  - ▣ Short-term: inception to conclusion is one year or less
  - ▣ Long-term: inception to conclusion is greater than one year
  - ▣ If payments are made/received prior to due date, elements from long-term transactions are recognized when payments are made or received

# Financial Reporting Model Improvements

194

- Transaction requires an action or actions by one or more parties
- Inception is when a party takes an action that results in initial recognition of asset or liability
- When transaction requires only a single action by each party, conclusion of transaction generally when final payment of cash is due according to terms of binding agreement

# Financial Reporting Model Improvements

195

- When transaction requires multiple actions , each action that establishes a portion of government's rights or fulfills a portion of government's obligations is the relevant component part of the transaction to determine when conclusion occurs.
- Conclusion generally is when final payment of cash for the action is due according to terms of binding agreement

# Financial Reporting Model

## Improvements

196

- Binding agreement is an understanding between two or more parties that creates rights, obligations, or both among the parties of the transaction.
  - ▣ Can be written, oral or implied by government's existing practices
  - ▣ May produce one or more transactions for the purpose of determining whether transaction is short-term or long-term



7. Claims payable:

BOY liability was \$1,300,000. Claims incurred during the year were \$2,750,000. Claims paid during the year were \$1,500,000. EOY liability was \$2,550,000. The claims result from a routine risk retention arrangement and are expected to be paid within one year from inception.

Recognized amounts:

This other event is a short-term other event because the period from inception (the date each claim occurs [that is, recognition of the liability]) and conclusion (the date each claim is expected to be paid) is less than one year. A liability should be recognized for the amounts payable at year-end. Claims incurred during the year should be recognized as an outflow of resources.

- Claims payable of \$2,550,000.
- Outflows of resources of \$2,750,000 as a current activity.

8. Tax anticipation notes (TANs)

BOY balance was \$4,000,000, all of which was paid during the year. \$4,400,000 of TANs with a 15-month maturity were issued in the current year, leaving an EOY balance of \$4,400,000.

Recognized amounts:

This transaction is a short-term transaction because TANs are considered short-term transactions (long-term debt issued for short-term purposes). A liability should be recognized for amounts payable at year-end. No inflows of resources or outflows of resources should be recognized because short-term borrowing transactions affect only assets and liabilities.

- TANs payable of \$4,400,000.
- No inflows of resources or outflows of resources.

# Financial Reporting Model

## Improvements

198

### □ Assets

- ▣ Assets arising from short-term transactions and other events, which include inventories and prepaid items
- ▣ Investments reported should be reported as assets; available to be converted to cash
- ▣ Assets arising from long-term transactions recognized when payments to be received are due

### □ Liabilities

- ▣ Liabilities arising from short-term transactions
- ▣ Long-term transactions recognized when payments become due
- ▣ Long-term debt issued for short-term purposes (e.g. tax anticipation notes with maturities beyond one year); recognize as short-term

# Financial Reporting Model

## Improvements

199

### □ Short-Term Financial Resources Flows

Inflows of resources from current activities (detailed)

Total inflows of resources from current activities

Outflows of resources from current activities (detailed)

Total outflows of resources from current activities

Net flows from current activities

Net flows from noncurrent activities (detailed)

Total net flows from noncurrent activities

Unusual or infrequent items (detailed)

Net change in fund balances

Fund balances—beginning of period

Fund balances—end of period

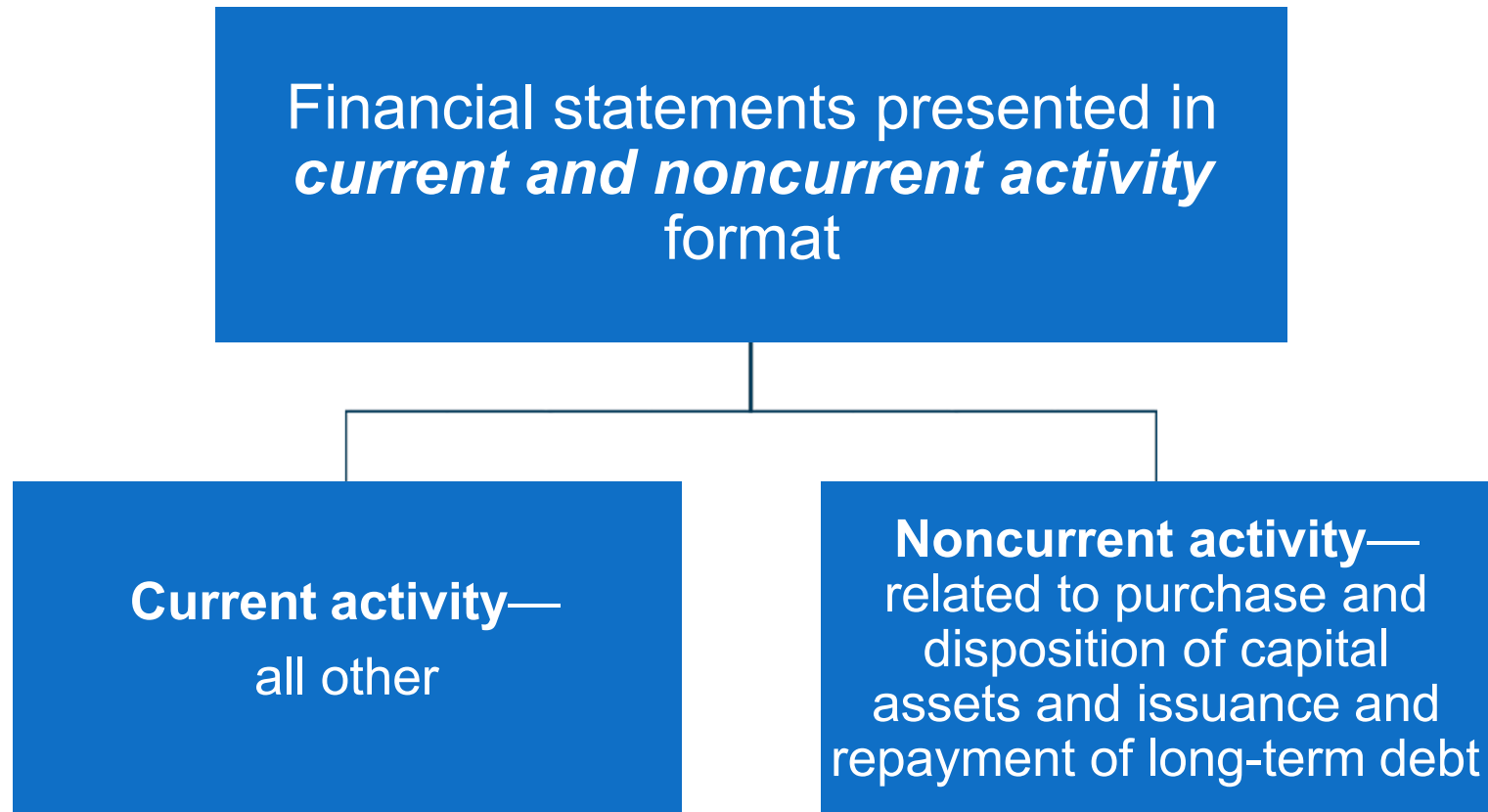
# Financial Reporting Model Improvements

200

- Noncurrent activities – related to acquisition and disposal of capital assets, issuance and repayment of capital-related liabilities and long-term debt (except LTD issued for short-term purposes)
- Term revenues and expenditures no longer applicable
- Governmental fund types include the general fund, special resources funds, capital projects funds, debt service funds, and permanent funds
  - Special resources fund used to account for and report proceeds of specific inflows of short-term financial resources from current activities

# Proposal: Presentation of Governmental Funds

201



**Sample City**  
**Short-Term Financial Resources Balance Sheet**  
**Governmental Funds**  
**6/30/20X5**  
(amounts expressed in thousands)

See Exhibit 18 for an illustration of an optional combining statement of nonmajor funds.

|                                      | <b>General<br/>Fund</b> | <b>Transportation<br/>Special<br/>Resources Fund</b> | <b>Debt Service Fund</b> | <b>Infrastructure<br/>Capital Projects<br/>Fund</b> | <b>Nonmajor<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--------------------------------------|-------------------------|--|--------------------------|---|--|---|
| <b>ASSETS</b>                        |                         |  |                          |   |  |   |
| Cash and cash equivalents            | \$ 10,520               | \$ 3,506   | \$ 20,693                | \$ 192,230  | \$ 5,588                                   | \$ 232,537                              |
| Investments                          | 23,912                  | 7,971  | 47,037                   | 436,943   | 12,700                                     | 528,563                                 |
| Receivables, net                     | 23,829                  | 7,943  | 559                      | 19,852  | 3,485                                      | 55,668                                  |
| Due from other funds                 | 748                     | —  | —                        | —   | —  | 748                                     |
| Other assets                         | 985                     | —  | —                        | —   | —  | 985                                     |
| Total assets                         | <u>\$ 59,994</u>        | <u>\$ 19,420</u>                                     | <u>\$ 68,289</u>         | <u>\$ 649,025</u>                                   | <u>\$ 21,773</u>                           | <u>\$ 818,501</u>                       |
| <b>LIABILITIES AND FUND BALANCES</b> |                         |  |                          |   |  |   |
| Accounts payable                     | \$ 5,827                | \$ 1,943   | \$ —                     | \$ 28,715   | \$ 2,274                                   | \$ 38,759                               |
| Advances                             | 175                     | —  | —                        | —   | 418  | 593                                     |
| Due to other funds                   | —                       | —  | —                        | —   | 748  | 748                                     |
| Total liabilities                    | <u>6,002</u>            | <u>1,943</u>   | <u>—</u>                 | <u>28,715</u>                                       | <u>3,440</u>                               | <u>40,100</u>                           |
| <b>Fund balances:</b>                |                         |  |                          |   |  |   |
| Restricted for:                      |                         |  |                          |   |  |   |
| Debt service                         | —                       | —  | 68,289                   | 7,511   | —  | 75,800                                  |
| Capital projects                     | —                       | —  | —                        | 612,799   | 4,339                                      | 617,138                                 |
| Other governmental purposes          | —                       | 17,477   | —                        | —   | 8,049                                      | 25,526                                  |
| Committed for:                       |                         |  |                          |   |  |   |
| Medical services program             | —                       | —  | —                        | —   | 3,993                                      | 3,993                                   |
| Economic development                 | 10,798                  | —  | —                        | —   | 1,875                                      | 12,673                                  |
| Assigned to:                         |                         |  |                          |   |  |   |
| Public safety                        | 7,424                   | —  | —                        | —   | —  | 7,424                                   |
| State grant program                  | —                       | —  | —                        | —   | 970  | 970                                     |
| Unassigned                           | 35,770                  | —  | —                        | —   | (893)                                      | 34,877                                  |
| Total fund balances                  | <u>53,992</u>           | <u>17,477</u>  | <u>68,289</u>            | <u>620,310</u>                                      | <u>18,333</u>                              | <u>778,401</u>                          |
| Total liabilities and fund balances  | <u>\$ 59,994</u>        | <u>\$ 19,420</u>                                     | <u>\$ 68,289</u>         | <u>\$ 649,025</u>                                   | <u>\$ 21,773</u>                           |   |

Alternatively, detail on fund balance can be presented in the notes to financial statements.



# Statement of Short-Term Financial Resource Flows

## INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

### Taxes:

Property tax  
Sales tax  
Use tax  
Motor fuel tax  
Other taxes

Payments in lieu of taxes

Special assessments

Licenses and permits

Fees for services

Franchise fees

Fines and citations

Intergovernmental

Investment earnings

Transfers in

Miscellaneous

Total inflows of short-term financial resources for current activities

## OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

General government

Public health and safety

Highway and streets

Culture and recreation

Economic development

Transfers out

Total outflows of short-term financial resources for current activities

Net flows of short-term financial resources for current activities

## NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES

Transfers in

Debt service

Capital outlay

Transfers out

Net flows of short-term financial resources for noncurrent activities

Net change in short-term financial resources fund balances

Short-term financial resources fund balances at beginning of year

Short-term financial resources fund balances at end of year

Current and Noncurrent Activity Format

|  | 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  | 3,586,753     | -                | -                        | 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              |
| <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)          | (1,346,497)              | (1,459,999)              |
| 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            |

Sample City  
Statement of Short-Term Financial Resource Flows  
Governmental Funds  
for the Year Ended June 30, 20X5  
(amounts expressed in thousands)

See Exhibit 19 for an illustration of an optional combining statement of nonmajor funds.

|  | General Fund | Transportation Special Resources Fund | Debt Service Fund | Infrastructure Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------|---------------------------------------|-------------------|--------------------------------------|-----------------------------|--------------------------|
| <b>INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES</b>  |              |                                       |                   |                                      |                             |                          |
| Taxes:   |              |                                       |                   |                                      |                             |                          |
| Sales tax  | \$ 104,142   | \$ 51,442                             | \$ —              | \$ 123,983                           | \$ —                        | \$ 279,567               |
| Property tax   | —            | —                                     | 78,930            | —                                    | —                           | 78,930                   |
| Franchise tax  | 22,706       | —                                     | —                 | —                                    | 416                         | 23,122                   |
| Use tax  | 34,880       | —                                     | —                 | 6,188                                | —                           | 41,068                   |
| Hotel/motel tax                                      | 157          | —                                     | —                 | —                                    | 7,713                       | 7,870                    |
| Special assessment tax                               | —            | —                                     | —                 | —                                    | 2,739                       | 2,739                    |
| Payments in lieu of taxes                            | 15,737       | —                                     | —                 | —                                    | —                           | 15,737                   |
| Intergovernmental                                    | 1,597        | 30,337                                | —                 | —                                    | 18,654                      | 50,588                   |
| Charges for services                                 | 13,905       | 6,848                                 | —                 | —                                    | 13,042                      | 33,795                   |
| Licenses, permits, and fees                          | 3,532        | —                                     | —                 | —                                    | —                           | 3,532                    |
| Fines and forfeitures                                | 7,853        | —                                     | —                 | —                                    | 121                         | 7,974                    |
| Investment earnings                                  | 6,792        | 2,295                                 | —                 | 11,028                               | 325                         | 20,440                   |
| Miscellaneous  | 2,075        | —                                     | 46                | 128                                  | 273                         | 2,522                    |
| Transfers in   | 1,980        | —                                     | —                 | —                                    | 917                         | 2,897                    |
| Total inflows of resources from current activities   | 215,356      | 90,922                                | 78,976            | 141,327                              | 44,200                      | 570,781                  |
| <b>OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES</b> |              |                                       |                   |                                      |                             |                          |
| General government                                   | 29,097       | 60,535                                | —                 | 2,168                                | 66                          | 91,866                   |
| Public safety  | 142,770      | —                                     | —                 | 6,067                                | 15,652                      | 164,489                  |
| Public works   | 1,882        | 16,934                                | —                 | 2,446                                | 173                         | 21,435                   |
| Culture and recreation                               | 21,354       | —                                     | —                 | 36                                   | 740                         | 22,130                   |
| Social and economic development                      | 11,614       | —                                     | —                 | —                                    | 13,787                      | 25,401                   |
| Transfers out  | —            | —                                     | —                 | 917                                  | 2,390                       | 3,307                    |
| Total outflows of resources from current activities  | 206,717      | 77,469                                | —                 | 11,634                               | 32,808                      | 328,628                  |
| Net flows from current activities                    | 8,639        | 13,453                                | 78,976            | 129,693                              | 11,392                      | 242,153                  |
| <b>NET FLOWS FROM NONCURRENT ACTIVITIES</b>          |              |                                       |                   |                                      |                             |                          |
| Debt service:  |              |                                       |                   |                                      |                             |                          |
| Principal  | (1,262)      | —                                     | (54,214)          | (8,742)                              | —                           | (64,218)                 |
| Interest and other charges                           | (54)         | —                                     | (22,221)          | (6,029)                              | —                           | (28,304)                 |
| Long-term debt issued                                | —            | —                                     | 30,649            | 119,681                              | —                           | 150,330                  |
| Premium on debt issued                               | —            | —                                     | 1,600             | 6,249                                | —                           | 7,849                    |
| Payment to bond refunding escrow agent               | —            | —                                     | (32,230)          | —                                    | —                           | (32,230)                 |
| Capital outlay                                       | (1,103)      | —                                     | —                 | (151,907)                            | (5,034)                     | (158,044)                |
| Proceeds from the sale of capital assets             | 275          | —                                     | —                 | —                                    | —                           | 275                      |
| Transfers in   | 650          | —                                     | —                 | 192                                  | 386                         | 1,228                    |
| Transfers out  | (662)        | —                                     | —                 | (17,377)                             | (3,290)                     | (21,329)                 |
| Total net flows from noncurrent activities           | (2,156)      | —                                     | (76,416)          | (57,933)                             | (7,938)                     | (144,443)                |
| <b>UNUSUAL OR INFREQUENT ITEM</b>                    |              |                                       |                   |                                      |                             |                          |
| Flood damage   | (7,500)      | —                                     | —                 | —                                    | —                           | (7,500)                  |
| Net change in fund balances                          | (1,017)      | 13,453                                | 2,560             | 71,760                               | 3,454                       | 90,210                   |
| Fund balances—beginning of period                    | 55,009       | 4,024                                 | 65,729            | 548,550                              | 14,879                      | 688,191                  |
| Fund balances—end of period                          | \$ 53,992    | \$ 17,477                             | \$ 68,289         | \$ 620,310                           | \$ 18,333                   | \$ 778,401               |



# Other Improvements to Financial Reporting

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## Budgetary Comparisons

- Presented as RSI for general fund and each major resources fund with legally adopted budget
- Includes variance columns for original to final budget and final budget and actuals
- Variance explanations in Notes to RSI

## Major Component Units

- Governments should present each major component unit in a separate column in Statements of Net Position and Statement of Activities
- If separate presentation reduces readability, include combining statements after fund FS

Required Supplementary Information  
Sample City  
Budgetary Comparison Schedule  
Transportation Special Resources Fund  
for the Year Ended June 30, 20X5  
(amounts expressed in thousands)

Current and noncurrent format is not a requirement.

|  | Budgeted Amounts |           | Variance<br>Final Budget—<br>Over (Under)<br>Original Budget | Actual Amounts<br>(Budgetary<br>Basis) | Variance<br>Final Budget—<br>Over (Under)<br>Actual Amounts |
|--|------------------|-----------|--|--|---|
|  | Original         | Final     |  |  |   |
| <b>BUDGETARY INFLOWS OF RESOURCES<br/>FROM CURRENT ACTIVITIES</b>      |                  |           |  |  |   |
| Taxes  | \$ 49,825        | \$ 49,825 | \$ —   | \$ 51,442                              | \$ 1,617  |
| Intergovernmental  | 29,750           | 29,750    | —  | 30,337                                 | 587   |
| Charges for services   | 6,720            | 6,720     | —  | 6,848                                  | 128   |
| Investment earnings  | 1,900            | 1,900     | —  | 2,295                                  | 395   |
| Total budgetary inflows of resources<br>from current activities        | 88,195           | 88,195    | —  | 90,922                                 | 2,727   |
| <b>BUDGETARY OUTFLOWS OF<br/>RESOURCES FROM CURRENT<br/>ACTIVITIES</b> |                  |           |  |  |   |
| General government   | 58,665           | 61,555    | (2,890)  | 60,535                                 | 1,020   |
| Public works   | 16,265           | 16,945    | (680)  | 16,934                                 | 11  |
| Total budgetary outflows of resources<br>from current activities       | 74,930           | 78,500    | (3,570)  | 77,469                                 | 1,031   |
| Net change in fund balances  | 13,265           | 9,695     | (3,570)  | 13,453                                 | 3,758   |
| Budgetary fund balance, July 1   | 4,024            | 4,024     | —  | 4,024                                  | —   |
| Budgetary fund balance, June 30  | \$ 17,289        | \$ 13,719 | \$ (3,570)   | 17,477                                 | \$ 3,758  |
| <b>Reconciliation to GAAP basis</b>                                    |                  |           |  |  |   |
| Total fund balance GAAP basis  |                  |           |  | \$ 17,477                              |   |

**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
(amounts expressed in thousands)

**Note A—Actual Budget Results**

|   | <u>General<br/>Fund<br/>Over (Under)</u> | <u>Transportation<br/>Fund<br/>Over (Under)</u> |
|---|--|---|
| <b>BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES</b>   |  |   |
| Differences—final budget to actual:   |  |   |
| The City experienced an increase in inflows of resources for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.  | \$ 6,170                                 | \$ 1,617  |
| Actual amounts of interest inflows of resources exceeded budgeted amounts as the City saw higher interest rates than expected.  | 3,692                                    | 395   |
| <b>BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES</b>  |  |   |
| Differences—original budget to final budget:  |  |   |
| The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building outflows of resources. Station #453 will be opening in the next fiscal year and these outflows of resources have been included in the next year's budget. | \$ 4,526                                 | \$ —  |
| <b>UNUSUAL OR INFREQUENT ITEM</b>   |  |   |
| Differences—original budget to final budget:  |  |   |
| The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the spending required to address the damage.   | \$ (7,500)                               | \$ —  |

**Note:** This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.

**Sample City**  
**Statement of Net Position**  
**6/30/20X5**  
**(amounts expressed in thousands)**

This presentation is an alternative presentation of using a combining statement (Exhibit 12) in order not to reduce the readability of this statement.

Alternatively, the internal balances could be reported on separate lines as assets and liabilities.

**ASSETS**

|                                 | <b>Primary Government</b>      |                                 |                  | <b>Component Units</b> |
|---------------------------------|--------------------------------|---------------------------------|------------------|------------------------|
|                                 | <b>Governmental Activities</b> | <b>Business-Type Activities</b> | <b>Total</b>     |                        |
| Cash and cash equivalents       | \$ 253,130                     | \$ 78,702                       | \$ 331,832       | \$ 60,133              |
| Investments                     | 528,563                        | —                               | 528,563          | 52,203                 |
| Receivables, net                | 61,500                         | 12,688                          | 74,188           | 34,259                 |
| Internal balances               | 256                            | (256)                           | —                | —                      |
| Inventories                     | —                              | 465                             | 465              | 2,282                  |
| Prepaid expenses                | —                              | 868                             | 868              | —                      |
| Notes receivable                | 3,767                          | 3,558                           | 7,325            | —                      |
| Other assets                    | 2,033                          | —                               | 2,033            | 1,399                  |
| Capital assets:                 |                                |                                 |                  |                        |
| Nondepreciable capital assets   | 717,614                        | 125,752                         | 843,366          | 162,390                |
| Depreciable capital assets, net | 1,127,765                      | 451,124                         | 1,578,889        | 305,932                |
| Total assets                    | <u>2,694,628</u>               | <u>672,901</u>                  | <u>3,367,529</u> | <u>618,598</u>         |

**DEFERRED OUTFLOWS OF RESOURCES**

|                                      |               |              |               |               |
|--------------------------------------|---------------|--------------|---------------|---------------|
| Pension related items                | 88,021        | 2,817        | 90,838        | 4,615         |
| OPEB related items                   | 506           | 95           | 601           | 78            |
| Debt refundings                      | 1,375         | 1,082        | 2,457         | 9,452         |
| Total deferred outflows of resources | <u>89,902</u> | <u>3,994</u> | <u>93,896</u> | <u>14,145</u> |

**Sample City**  
**Combining Statement of Net Position**  
**Discretely Presented Component Units**  
**6/30/20X5**  
**(amounts expressed in thousands)**

This presentation is an alternative presentation using a combining statement in order not to reduce the readability of Exhibit 2.

|                                       | <b>Energy<br/>Authority</b> | <b>Airport</b> | <b>Nonmajor<br/>Component<br/>Units</b> | <b>Total<br/>(See Exhibit 2)</b> |
|---------------------------------------|-----------------------------|----------------|---|----------------------------------|
| <b>ASSETS</b>                         |                             |                |   |                                  |
| Cash and cash equivalents             | \$ 10,928                   | \$ 31,958      | \$ 17,247                               | \$ 60,133                        |
| Investments                           | 9,487                       | 27,744         | 14,972                                  | 52,203                           |
| Receivables, net                      | 2,946                       | 6,486          | 24,827                                  | 34,259                           |
| Inventories                           | —                           | 1,517          | 765                                     | 2,282                            |
| Other assets                          | —                           | 407            | 992                                     | 1,399                            |
| Capital assets:                       |                             |                |   |                                  |
| Nondepreciable capital assets         | 171                         | 147,234        | 14,985                                  | 162,390                          |
| Depreciable capital assets, net       | 7,857                       | 252,813        | 45,262                                  | 305,932                          |
| Total assets                          | <u>31,389</u>               | <u>468,159</u> | <u>119,050</u>                          | <u>618,598</u>                   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> |                             |                |   |                                  |
| Pension related items                 | 814                         | 2,404          | 1,397                                   | 4,615                            |
| OPEB related items                    | 42                          | —              | 36                                      | 78                               |
| Debt refundings                       | —                           | 9,185          | 267                                     | 9,452                            |
| Total deferred outflows of resources  | <u>856</u>                  | <u>11,589</u>  | <u>1,700</u>                            | <u>14,145</u>                    |

# Implementation Guidance Update- 2023 Exposure Draft

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- Issued October 2022
- Comments Due: January 20, 2023
- Objective is to provide guidance that clarifies, explains or elaborates on GASB Statements
- Provides additional guidance
  - GASB 87, Leases
  - GASB 96, SBITAs
  - GASB 100, Accounting Changes and Error Corrections

# Finally.....you have completed Budgeting and Financial Reporting I

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- Questions? Thoughts?
- My contact information:

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