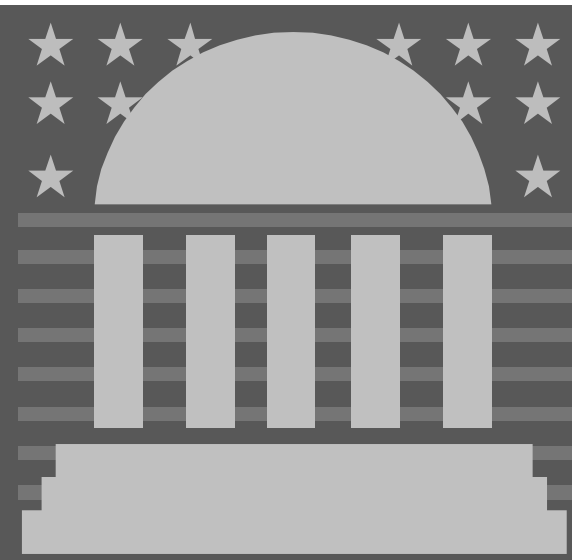


•
•
•
•
•
•
•
•
•
•
•

GASB 34

The New Financial Reporting Model

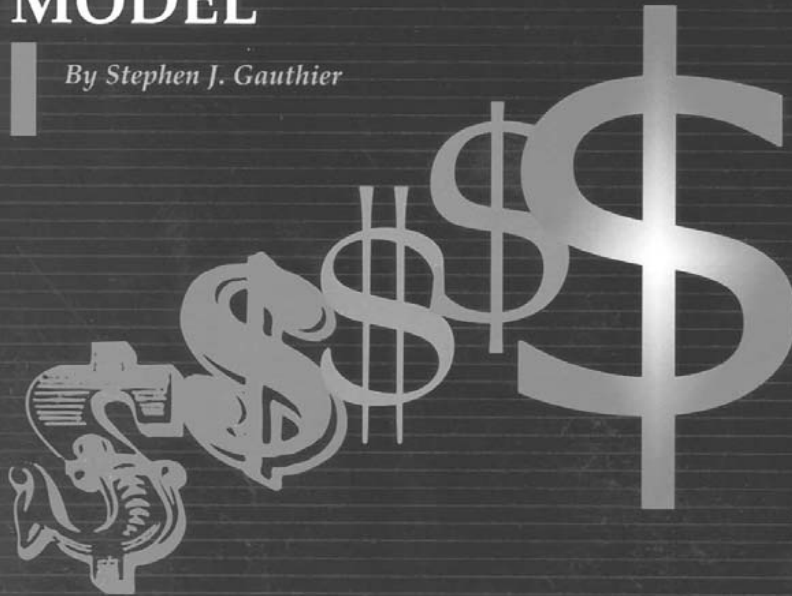


A Non-Financial Perspective

*An
Elected Official's
Guide to the*

**NEW
GOVERNMENTAL
FINANCIAL REPORTING
MODEL**

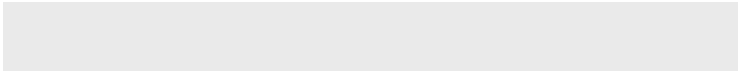
By Stephen J. Gauthier



GOVERNMENT FINANCE OFFICERS ASSOCIATION

-
-
-
-
-
-
-
-
-
-
-

Introduction



-
-
-
-
-
-
-
-

•
•
•

What Is GASB Statement No. 34?

- Governmental Accounting Standards Board
 - establish standards of financial accounting and reporting for state and local governmental entities
- Issued in June 1999
- Establishes new “reporting model” for state and local government financial reports
- Biggest change in the history of public-sector accounting

NO. 171-A | JUNE 1999

Governmental Accounting Standards Series

Statement No. 34 of the
Governmental Accounting
Standards Board

Basic Financial Statements—
and Management’s Discussion
and Analysis—for State and
Local Governments



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

•
•
•

What Does the New Model Replace?

- Traditional model originated early in the 20th century
- Definitive form of traditional model set by NCGA Statement 1 (1979)
 - Widely adopted in the 1980s
 - Considered a major improvement
 - Improvement = fiscal & operational accountability

•
•
•

How New is the New Model?

- Retains most popular features traditional model
- Adds several significant new features
- Goal:
 - Retain and better serve current users
 - Attract new users not served previously

• • • • • • • •

•
•
•

What Are the Key New Features?

- Government-wide financial reporting
- Additional long-term focus for governmental (i.e. tax-supported) activities
- Narrative introductory overview and analysis = MD&A
- Information on major individual funds
- Expanded budgetary reporting
- Infrastructure reporting

•
•
•

What about Infrastructure?

- Most controversial feature of new model
- GFOA position
 - Each government must make its own decision regarding the implementation of infrastructure reporting
 - Governments that elect to report infrastructure should take a least-cost approach to implementation

When to Implement?

- Timing of implementation depends upon total revenues
 - Only revenues of governmental funds and enterprise funds of the primary government
 - Exclude other financing sources and extraordinary items
 - Measured as of the first fiscal year ended on or after 6/15/99

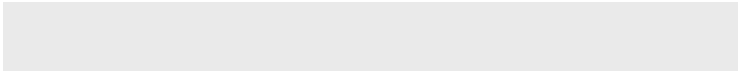
-
-
-

Implementation Schedule

TOTAL REVENUES	ALL PROVISIONS OF GASB STATEMENT NO. 34 EXCEPT FOR THE <i>RETROACTIVE</i> REPORTING OF INFRASTRUCTURE ASSETS	RETROACTIVE REPORTING OF INFRASTRUCTURE ASSETS

-
-
-
-
-
-
-
-
-
-
-

Background and Overview



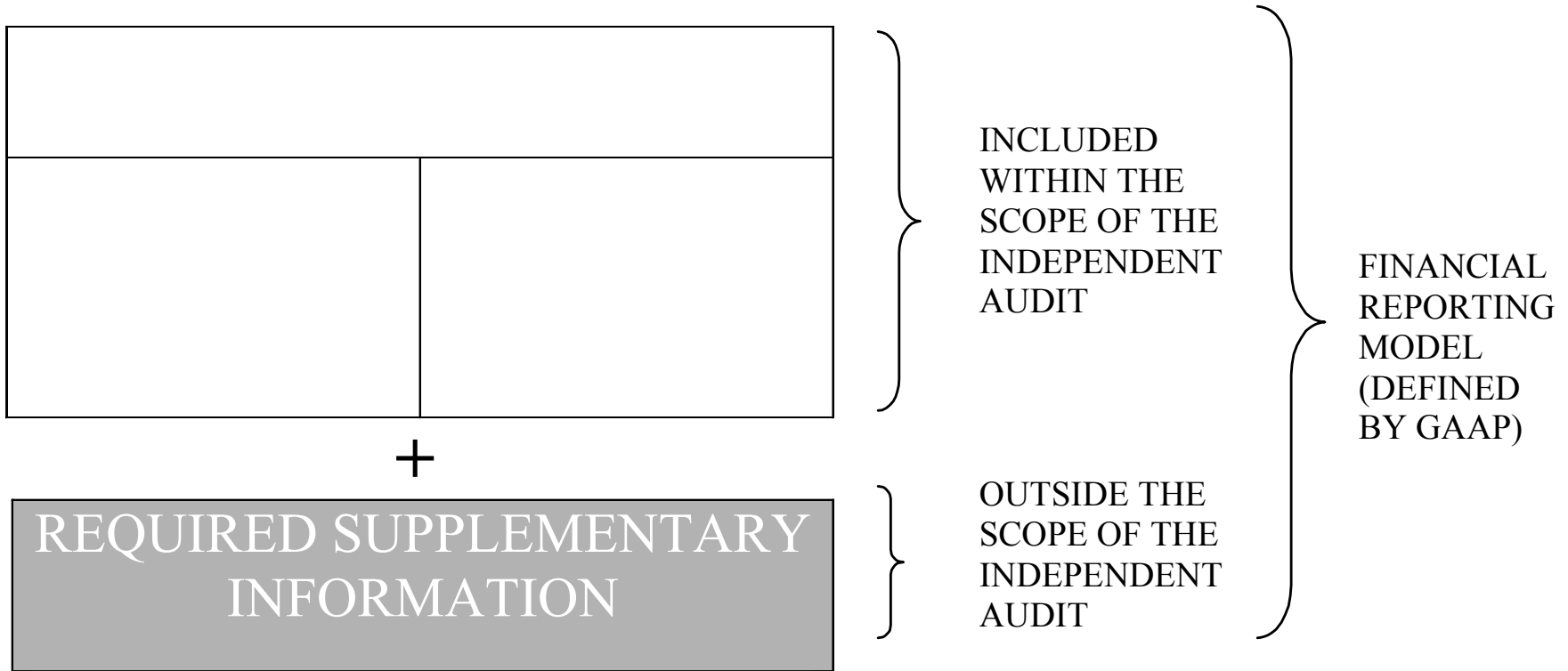
-
-
-
-
-
-
-
-
-

-
-
-

What is a Financial Reporting Model?

- Three ways to provide needed information:
 - Display (i.e., financial statements)
 - Disclosure (i.e., notes)
 - Additional information (i.e., required supplementary information)
- Reporting model defines *minimum* combination of these three elements
- GASB defines for state/local governments

Scope of the Reporting Model



•
•
•

How Many Models Are There?

- Two private-sector models
 - Business model
 - Not-for-profit model
- One model for state and local governments
 - Unique
 - Still, many similarities to private-sector models

-
-
-

Summary of Reporting Models

PRIVATE SECTOR		PUBLIC SECTOR
BUSINESS ENTERPRISE MODEL	NOT-FOR-PROFIT MODEL	

-
-
-
-
-
-
-
-

Why Separate Models?

- Two key reasons why government has always had a separate model
 - Special need to ensure and demonstrate compliance with legal requirements
 - External restrictions (e.g., grants and bond indentures)
 - Internal restrictions (e.g., operating budget)
 - Desire to focus on near-term financing requirements (like the operating budget)

•
•
•

What Are the Key Differences?

- Use of fund accounting
- Use of special accounting for tax-supported activities
- Presentation of budgetary comparisons in connection with regular financial reporting

•
•
•

Why the Need for a New Model?

- Financial reporting must demonstrate both
 - *Fiscal* accountability and
 - *Operational* accountability
- Fiscal accountability already strong, but can be made even stronger
- Operational accountability needs to be significantly enhanced

•
•
•

How To Improve Fiscal Accountability?

- Shift in focus to major individual funds
- Shift in focus to individual fund budgets
- Inclusion of data from the original budget

•
•
•

How To Improve Operational Accountability?

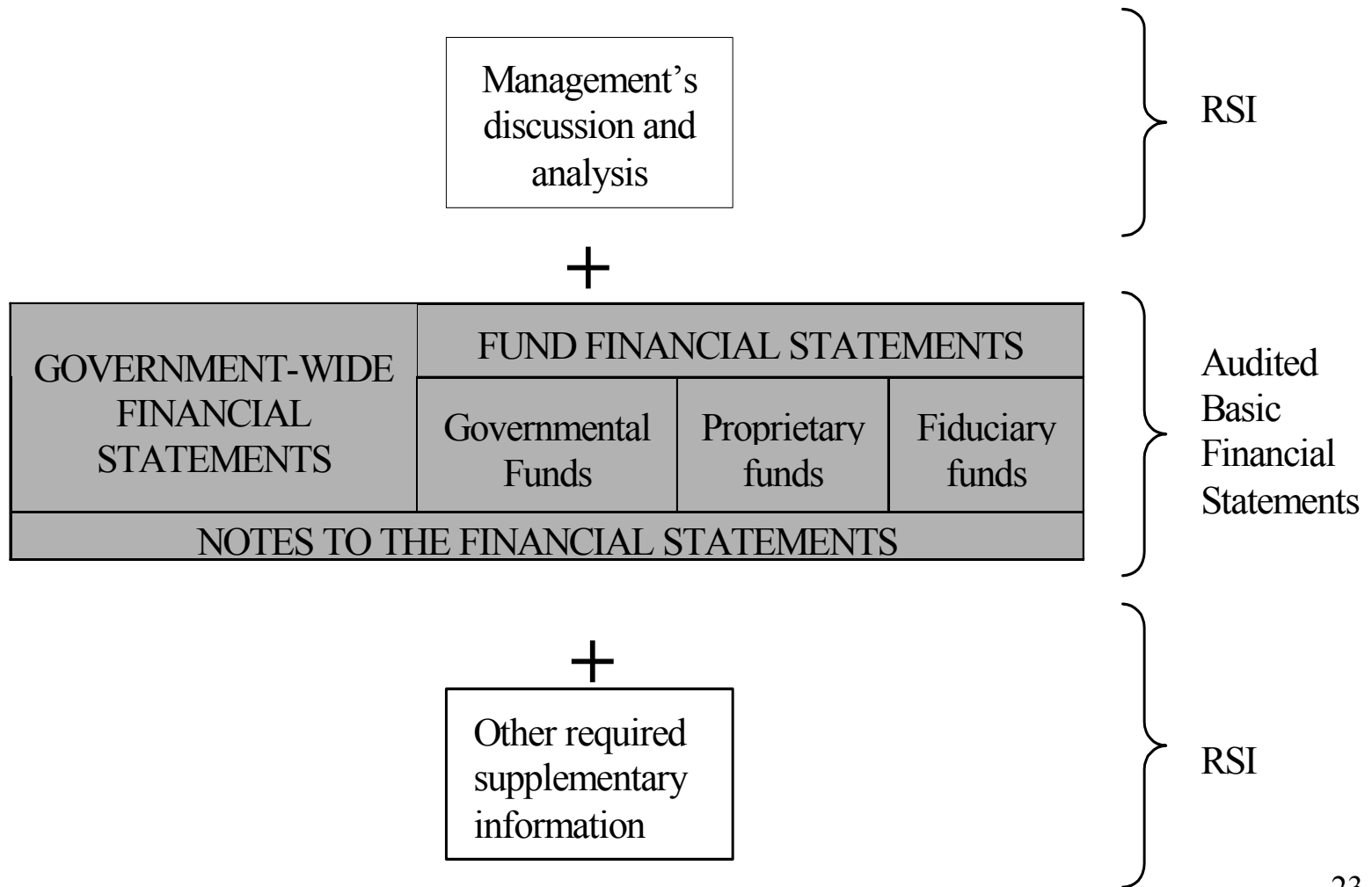
- Introduction of government-wide financial statements
- Expanded focus for governmental activities
- Presentation of cost data
 - Statement of Activities
- Narrative overview and analysis
 - MD&A

•
•
•

What is the Basic Structure of the New Model?

- “Basic financial statements”
 - Government-wide financial statements
 - Fund financial statements
 - Governmental funds (tax-supported activities)
 - Proprietary funds (business-type activities)
 - Fiduciary funds (not available for programs)
 - Notes to the financial statements
- Required supplementary information (RSI)

New Governmental Model



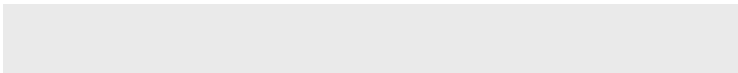
•
•
•

New Model Within the CAFR

- Introductory Section of CAFR
- Financial Section of CAFR
 - *Basic financial statement and RSI (new reporting model)*
 - Combining and individual fund presentations
- Statistical section of CAFR

-
-
-
-
-
-
-
-
-
-
-

Key Components of New Model



-
-
-
-
-
-
-
-
-

•
•
•

What is the Purpose of MD&A?

- Narrative introduction and overview
- Analysis of key data
 - *Why* significant increases or decreases?
 - *Why* is the original budget for the general fund different from the final amended budget?
 - *Why* has the fund balance of the general fund increased or decreased?
- MD&A not included within the scope of the independent audit
 - Still subject to limited auditor procedures

•
•
•

What Can Be Found in MD&A?

- Relationship among financial statements
- Condensed comparative statements
- Overall analysis
- Major fund analysis
- Budget variances for general fund
- Capital asset and long-term debt activity
- *Known* facts, decisions or conditions expected to have a significant impact



What are the Entity-Wide Statements?

- Two Government-wide basic financial statements
 - Statement of net assets
 - Statement of activities



•
•
•

What is the Statement of Net Assets?

- Reports *all* assets and liabilities
 - “Like a balance sheet”
 - Both *financial* assets and *capital* assets (including infrastructure)
 - Both *current* and *long-term* liabilities
- Difference = “net assets”

ASSETS

LIABILITIES

NET ASSETS

\$ 31,914 \$ 23,360 \$ 55,274

•
•
•

What is the Statement of Activities?

- “Like an income statement”
- *All* changes in government-wide net assets
- Focus on *expenses* rather than *expenditures*
- Order of presentation
 - Service focus rather than revenue focus
 - Expenses (cost of services) precede revenues
- *Net cost format* demonstrates degree to which an activity is self-financing

Expenses	Program revenues					
	Charges for Services	Operating Grants & Contributions	Capital Grants and Contributions			
\$ 2,905	\$ 78	\$ 29	\$ -	\$ (2,798)		
3,385	4,359	4	450			
168	416	-	-			
2,066	85	1,204	-	(777)		
15,525	919	2,106	380	(12,120)		
7,820	1,637	16	-	(6,167)		
4,945	426	726	-	(3,793)		
2,038	-	-	-	(2,038)		
<u>38,852</u>	<u>7,920</u>	<u>4,085</u>	<u>830</u>	<u>(26,017)</u>		
7,220	5,977	-	1,313			
188	16	-	-			(172)
<u>7,408</u>	<u>5,993</u>	<u>-</u>	<u>1,313</u>			<u>(102)</u>
<u>\$ 46,260</u>	<u>\$ 13,913</u>	<u>\$ 4,085</u>	<u>\$ 2,143</u>	<u>\$ (26,017)</u>	<u>\$ (102)</u>	
General Revenues						
Taxes:						
Property taxes, levied for general purposes				12,973	-	12,973
Property taxes, levied for debt service				1,658	-	1,658
Utility Taxes				660	-	660
Franchise Taxes				4,674	-	4,674
Grants and contributions not restricted to specific programs				5,246	-	5,246
Invest Income				2,328	1,017	3,345
Miscellaneous				324	-	324
Total general revenues				<u>27,863</u>	<u>1,017</u>	<u>28,880</u>

\$ 31,914 \$ 23,360 \$ 55,274

•
•
•

Why Entity-Wide Statements?

- Focus on the “*big picture*” (a government is more than the sum of its parts)
- Demonstrate the *total impact* of the short-term financing decisions reported in the governmental funds
- Provide *cost information* (i.e. *expenses*), for activities reported in governmental funds

•
•
•

Why Two Types of Activities?

- Governmental activities
 - Tax-supported
 - Program revenues *not* expected to cover expenses
- Business-type activities
 - At last partially supported by fees and charges
 - Program revenues expected to cover all or a significant portion of program expenses
- Division avoids inappropriate comparisons

•
•
•

Why GF Financial Statements?

- Most decisions in public sector made in context of operating budget
 - Focus on near-term inflows and outflows of spendable resources
 - Includes budgeted items not otherwise reported in operating statement (e.g., capital outlay)
 - Excludes from operating statement items not typically budgeted (e.g., the incurrence of liabilities payable in future years, depreciation)

•
•
•

Why Are the Numbers Different?

- Difference between governmental *funds* and governmental *activities* in the government-wide financial statements
 - Financial assets versus total assets
 - Liabilities that are due and payable versus total liabilities
 - Capital outlay versus depreciation
 - Debt issuance and principal repayment

-
-
-

Why Are the Numbers Different? (cont.)

- Immediate recognition versus deferral and amortization
- Revenue when available versus revenue when earned
- Internal service fund activities and balances



RSI



•
•
•

What is the Budgetary Comparison?

- Contents
 - Original budget
 - Final amended budget
 - Actual (reported using budgetary basis of accounting)
 - Variance column (optional)
- Option to report as basic financial statement or RSI (general fund and major special revenue funds)

•
•
•

Infrastructure Reporting

- Long-lived, stationary capital assets
 - Streets, bridges, sidewalks, light poles, sewer lines, water lines, storm drain system, etc.
- 2 Methods
 - Capitalized Approach
 - Record, capitalize, report
 - Modified Approach

• • • • • • • •

What is the Modified Approach?

- Infrastructure normally depreciated like other capital assets
- Option *not* to depreciate infrastructure if certain conditions met:
 - Up-to-date inventory of infrastructure
 - Regular condition assessments
 - Annual estimate of cost to maintain at level determined and disclosed by government
 - Document maintenance level

•
•
•

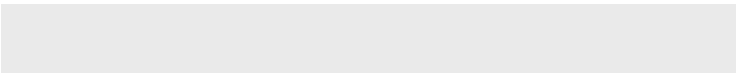
What Reported for Modified Approach?

- Results of 3 most recent condition assessments
- Annual amount estimated to maintain at predetermined condition level (past 5 years)
- Actual expense to maintain at predetermined condition level (past 5 years)

• • • • • • • •

-
-
-
-
-
-
-
-
-
-
-

Implementation Considerations



-
-
-
-
-
-
-
-

•
•
•

Implementation Considerations

- Education
 - Read GASB 34, implementation guide, GAFFR
 - Attend conferences, meetings, seminars
 - www.GASB.org www.GFOA.org
- Implementation?
- Budget implementation funds
- Determine Major funds
- MD&A vs Transmittal Letter
- Other RSI

•
•
•

Implementation Considerations

- Infrastructure Reporting
 - Capitalized Approach vs Modified Approach
 - Classification of infrastructure
 - Capitalization thresholds
- Liabilities
 - Compensated absences
- Statement of Activities
 - Identify functions & respective revenues
- Communication
 - Board, Council, Mgmt, Auditors, Staff

QUESTION
GASB 34

The New Financial Reporting Model



A Non-Financial Perspective