

Reexamining Statement 34

Florida School Finance Officers Association

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The views expressed in this presentation are those of Mr. Mead. Official positions of the GASB on accounting matters are determined only after extensive due process and deliberation.



Overview

- What is the financial reporting model?
- Why reexamine the financial reporting model?
- Research on the effectiveness of the reporting model standards
- The topics to be addressed in the reexamination project
- Q&A throughout

What Is the Financial Reporting Model?

- The blueprint for a general purpose external financial report prepared in conformity with generally accepted accounting principles (GAAP)
- The basic components of the report and their contents:
 - Basic financial statements
 - Notes to basic financial statements
 - Required supplementary information (including management's discussion and analysis)
 - Measurement focus and basis of accounting

The Financial Reporting Model Pronouncements

- Statement No. 34, *Basic Financial Statements—and Managements Discussion and Analysis—for State and Local Governments*
- Statement No. 35, *Basic Financial Statements—and Managements Discussion and Analysis—for Public Colleges and Universities*
- Statement No. 37, *Basic Financial Statements—and Managements Discussion and Analysis—for State and Local Governments: Omnibus*
- Statement No. 41, *Budgetary Comparison Schedules—Perspective Differences*
- Statement No. 46, *Net Assets Restricted by Enabling Legislation*
- Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

Why Reexamine the Reporting Model?

- The GASB not only establishes standards but also is committed to ensuring that the standards continue to be effective—they still function properly and provide necessary information for decision making and assessing accountability
- Most of the requirements of Statement 34 became effective between 2002 and 2004
 - The provisions related to reporting existing general infrastructure assets were fully effective in 2006 and 2007
- Research on the effectiveness of the standards found areas in need of improvement

Pre-Agenda Research Activities

- 2013—identify any major, overarching issues that have arisen since Statement 34 was implemented
 - 11 research roundtables in 8 cities, focusing on either general purpose or special-purpose governments, consisting of a mix of financial statement preparers, auditors, and users
- 2014—identify how Statement 34 has been applied in practice and explore the issues raised in the roundtables
 - Surveys of financial statement preparers, auditors, and users, as well as an additional survey of preparers using the modified approach for reporting infrastructure
 - Archival research with annual financial reports
 - Literature review
- 2015—delve deeper into the issues raised in the surveys
 - 148 in-depth interviews

School District Participation in the Research

- Roundtables—6 of the 48 governments were school districts (144 participants total)
- Archival—79 of the 465 governments examined were school districts
 - 14 districts with less than \$10 million annual revenue
 - 19 districts with \$10-\$100 million annual revenue
- Survey—16 of the 265 preparer survey respondents were school districts
- Interviews—5 of the 58 preparer interviews were school districts (only localities had more)

Major Research Findings – MD&A

- Very valuable when done well, but often not done well
- Financial statement analysis components can be repetitive
- Certain parts that are boilerplate may no longer be necessary
- Section on currently known facts, decisions, and conditions mostly budgetary information
- Often prepared at the last moment before issuance of the report

Major Research Findings – Government-Wide Financial Statements

- Very useful but not used as widely as fund financial statements
- Preparers most likely to view them negatively, auditors more positive than negative, users generally positive
- Format of the statement of activities is problematic
- Mixed views among users (though more positive) on whether a government-wide statement of cash flows should be required; preparers and auditors mostly negative
- Relevant standards generally viewed as understandable

Major Research Findings – Governmental Fund Financial Statements

- Major fund reporting generally captures a significant majority of financial activity
- Users need more information about debt service funds but are not getting it from major fund reporting
- Statements are considered very useful
- The measurement focus and basis of accounting (MFBA) are not conceptually consistent
 - Given a choice between (a) retaining current financial resources/modified accrual, but in RSI instead of basic financial statements, or (b) retaining the basic financial statements but changing to a more conceptually consistent MFBA, nearly all users and three-quarters of preparers and auditors favored (b)

Major Research Findings – Proprietary Fund Financial Statements

- Considered to be very useful, particularly by users who focus solely on business-type activities (BTA)
- Strong support for the separate presentation of operating and nonoperating revenues and expenses
- However, confusion regarding what belongs in each category
- Otherwise, relevant standards generally considered understandable

Major Research Findings (continued)

- **Fiduciary fund financial statements**
 - Considered to be useful, though users view them as less useful than other fund financial statements
 - Relevant standards generally understandable
- **Extraordinary and Special Items**—reported infrequently and often incorrectly

Major Research Findings – Budgetary Comparisons

- Sizeable majority present as RSI
- Financial statement format more common than budgetary
- Most present a final budget-to-actual variance column
- Considerable support for presenting the original budget-to-final budget variance, though it is infrequently shown
- Information is considered valuable
- Standards are relatively understandable

Project Timeline

Pre-Agenda Research Started	August 2013
Added to Current Technical Agenda	September 2015
Deliberations Began	October 2015
Initial Due Process Document Expected	December 2016

Topics to Be Addressed

- **Management's Discussion and Analysis (MD&A)**—options for enhancing the financial statement analysis component, eliminating requirements that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting currently known facts, decisions, or conditions
- **Government-Wide Financial Statements**—explore alternatives for the format of the statement of activities and consider whether a government-wide statement of cash flows should be required
- **Major Funds**—explore options for providing additional information about debt service funds, either individually or in aggregate in the financial statements or the notes

Topics to Be Addressed (continued)

- **Governmental Fund Financial Statements**—explore a conceptually consistent measurement focus and basis of accounting and a presentation format consistent with that measurement focus and basis of accounting
- **Proprietary Fund and Business-Type Activity (BTA) Financial Statements**—explore operating performance measure alternatives in conjunction with evaluating the guidance for the separate presentation of operating and nonoperating revenues and expenses.
- **Extraordinary and Special Items**—explore options for clarifying the guidance for more consistent reporting

Topics to Be Addressed (continued)

- **Fiduciary Fund Financial Statements**—explore where these financial statements should be presented in the basic financial statements
- **Budgetary Comparisons**—explore the appropriate method of communication (either as basic financial statements or required supplementary information) and which budget variances, if any, should be required to be presented