



Recognition of Elements of Financial Statements and Financial Reporting Model Improvements Exposure Drafts

Speakers:

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Agenda

Conceptual Framework: Recognition of Elements of Financial Statements Exposure Draft

- Recognition concepts and proposed framework

Financial Reporting Model Improvements

- Measurement focus and basis of accounting for governmental funds
- Format of governmental fund financial statements
- Management's discussion and analysis
- Major component unit presentations
- Unusual or infrequent items
- Clarification of operating and nonoperating in proprietary funds
- Presentation of proprietary funds statement of revenues, expenses, and changes in net position
- Effective date and transition provisions

Questions?



Conceptual Framework: Recognition of Elements of Financial Statements Exposure Draft

Recognition concepts and framework

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.



Recognition concepts and framework

Two Measurement Focuses

1

Economic Resources

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

2

Short-Term Financial Resources

(would replace current financial resources in the governmental funds)



Financial Reporting Model Improvements

Measurement Focus and Basis of Accounting in Governmental Funds

Short-Term Transactions

Period from inception to conclusion is one year or less

Long-Term Transactions

Period from inception to conclusion is more than one year

Inception

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

Conclusion

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

Proposal: Recognition in Governmental Funds

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

Elements from *short-term* transactions or other events recognized as *the underlying transaction or other event occurs*

Elements from *long-term* transactions and other events recognized *when payments are due*

Financial assets: cash, assets that are available to be converted to cash, and assets that are consumable in lieu of cash

Recognition in Governmental funds

Assets

- Assets include those from **short-term transactions** as they occur
- Assets arising from **long-term transactions** are recognized when payments are due
- Includes assets that can be converted to or consumable in lieu of cash:
 - Receivables
 - Investments
 - Prepaid items
 - Inventory

Liabilities

- Liabilities arising from **short-term transactions** that are payable at year end as they occur
- Liabilities arising from **long-term transactions** are recognized when payments become due
- Except for **long-term debt issued for short-term purposes**, which is recognized as a short-term transaction
 - To exclude these items would overstate fund balance since the debt was issued for short-term purposes

Recognition in Governmental funds

Inflows of resources

- Inflows of resources from **short-term transactions** (such as tax levies, grants, and changes in fair value of investments) as the transactions occur
- Inflows of resources from **long-term transactions** as payments are due except for long-term debt issued for short-term purposes
- Includes on-behalf payments for fringe benefits and salaries and direct vendor financing (leases)

Outflows of resources

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

Recognition in Governmental funds

Deferred outflows of resources and deferred inflows of resources

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

Short-term measurement focus accrual basis of accounting

Why the need to change from the current financial resources measurement focus and modified accrual basis of accounting?

- Fiscal accountability was not as effective as it could be in the government fund financial statement statements
- Assets reported in funds did not consistently reflect a shorter time perspective (for example, long-term receivables)
- No concepts exist to base authoritative guidance for reporting more complex transactions, (for example, derivative transactions)
- Lack of consistency in short-term perspective (for example, availability periods either 60 or 90 days)

Short-term measurement focus accrual basis of accounting

Advantages

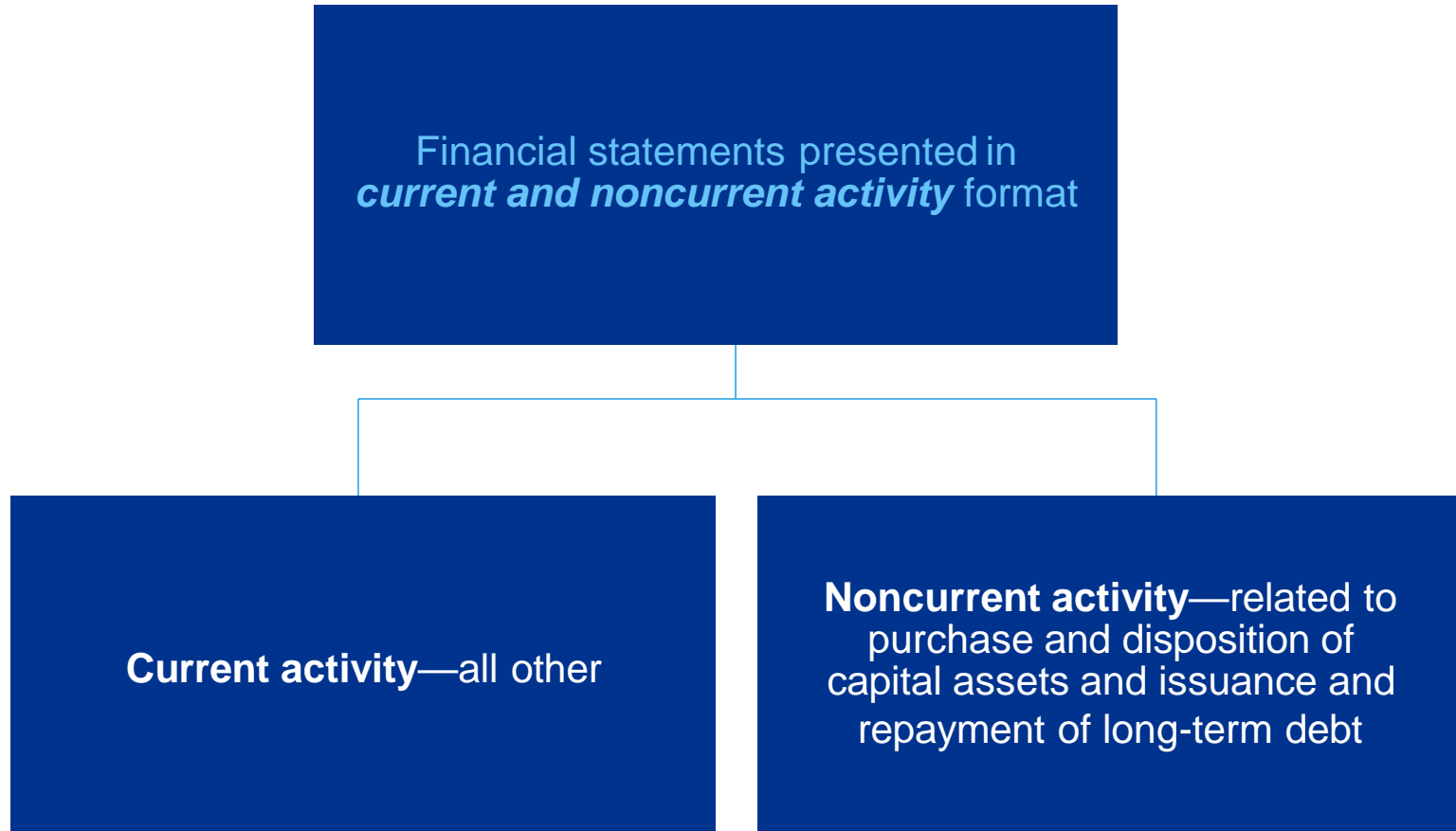
- Can be applied consistently by all governments
 - Broad definition of financial assets that includes assets expected to be consumed in lieu of cash (no alternative ways for certain assets such as inventory)
 - One year definition measured from inception to completion of transaction
- Enable assessment of the amount of fund balance available for spending in the next period
- Shorter time perspective and recognizing long-term transactions when due may be useful in evaluating budgetary information, which typically relates to shorter periods as well
- Appropriately reflects unique characteristics and transactions of governments

Short-term measurement focus accrual basis of accounting

Dissenting views

- Why not issue targeted guidance to address specific government fund reporting problems rather than changing measurement focus and basis of accounting?
- Inception to completion of a transaction could be interpreted differently and result in greater inconsistencies amongst governments
- Does not address funding issues governments have with pension and OPEB liabilities
- The benefits of implementation does not outweigh the costs
 - Will the financial results really be much different under the new measurement focus and basis of accounting?

Proposal: Presentation of Governmental funds



Proposed statement of short-term financial resource flows

INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

Taxes:

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
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

Current and Noncurrent Activity Format

OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES

General government	14,053,444	6,961,201	2,213,691	23,228,336
Public health and safety	70,880,913	-	590,383	71,471,296
Highway and streets	12,137,714	-	4,715,808	16,853,522
Culture and recreation	3,581,583	335,659	1,808,065	5,725,307
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of short-term financial resources for current activities	101,304,999	7,296,860	13,201,992	121,803,851
Net flows of short-term financial resources for current activities	5,455,280	(1,319,838)	6,314,185	10,449,627

NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR NONCURRENT ACTIVITIES

Transfers in	-	-	10,651,605	10,651,605
Debt service	(2,434,544)	(366,412)	(9,198,505)	(11,999,461)
Capital outlay	(111,987)	(1,515)	(1,346,497)	(1,459,999)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
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

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Proposed statement of short-term financial resource flows

Why the change?

- To better reflect the short-term resource flows for both current and noncurrent transactions resulting from the new measurement focus and basis of accounting
- The format, titles and captions in the statement effectively communicate there are differences between the fund financial statements and the government-wide financial statements

Dissenting views

- Current and noncurrent terminology holds a different meaning in the private sector and will confuse users
- Title of statement and captions are too lengthy and cumbersome
- Difficult to determine the difference between a current and noncurrent transfer

Management's discussion and analysis

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

Component Unit

Major component unit presentations

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

Unusual or Infrequent Items

Unusual or Infrequent Items

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

Proprietary funds

Statement of revenues, expenses, and changes in fund net position

— Continue separate presentation of operating and nonoperating revenues and expenses

AND

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

Operating and nonoperating

Operating

- Activities other than nonoperating activities

Nonoperating

- **Subsidies** received and provided
- Revenues and expenses of financing
- Resources from the disposal of
- capital assets and inventory

Proprietary funds

Subsidies

- Resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided
- Resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided

Add a new subtotal for operating income (loss) and noncapital subsidies

Budgetary comparison information

Budgetary comparisons

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

Proposed effective dates

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

\$75 million or more

Apply in fiscal years beginning after
June 15, 2024

Less than \$75 million

Apply in fiscal years beginning
after June 15, 2025

Early application is encouraged.

Total annual revenues

Include

- All governmental activity revenues
- All business-type activity revenues

Exclude

- Extraordinary and special items

Governments engaged only in fiduciary activities should use total annual additions

Component units should implement in the same year as their primary government.

Transition Provisions

Retroactively, by restating financial statements, if practicable,
for all prior periods presented

Disclose the nature of the restatement and its effect

If not practicable

Restate beginning fund balance for the
earliest period presented for the
cumulative effect of application, if any
Disclose reason for not restating

Not required to

Restate prior periods for purposes of
comparative data for MD&A

Encouraged to

Provide comparative analysis of key
elements of activities (governmental
and business-type) in MD&A

Statistical section provisions—may be applied prospectively



Questions?





Thank you



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