BUDGETING & FINANCIAL REPORTING I

ALABAMA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
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BUDGETING & FINANCIAL REPORTING I

"Keren"

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Disclaimer: Some of the materials in this presentation came from the GASB website or presentations made by GASB staff and other practitioners at past educational events.

AGENDA

- Government Accounting Standards Board (GASB)
  - Upcoming project that will possibly replace modified accrual basis of accounting and current financial resource measurement focus – GASB webinar February 22, 2017 2pm EST
- 23 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
- Comprehensive Annual Financial Reporting
- Analyzing School District Finances
- Recent GASB Pronouncements that could affect LEA Local Education Agencies
Common Acronyms in Presentation

- 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 GAAP for Governments and Not-for-Profits

Governmental Accounting Standards Board

State and Local Government Organizations

Governmental Not-for-Profit Organizations

GASB – www.gasb.org

- Rule 203 of the Code of Professional Conduct for the American Institute of Certified Public Accountants (AICPA) has given GASB the “authority to establish accounting principles” for SLG.
- GASB’s due process activities are designed to encourage broad public participation in the standards setting process.
- On agenda at present, GASB issued Invitation to Comment in Project Designed to Improve Financial Reporting Model (1/4/17)
  - Webinar will be held on Wednesday, February 22, 2017 from 2 – 3 pm EST where they will discuss 3 alternative recognition approaches that could replace the modified accrual basis of accounting and current financial resources measurement focus for governmental fund financial statements.
  - Written comments are due by March 31, 2017
  - Public hearing – Atlanta, GA – April 28, 2017
  - Other public hearings and user forums are scheduled.
- GASB recently issued Statement 83 – Certain Asset Retirement Obligations - on December 7, 2016.
Government vs. Business
Why can’t we all follow same GAAP?

SLG Standards ≠ Business Standards
- Accountability emphasis
- Organizational purpose
- Sources of revenue
- Potential for longevity
- Relationship with stakeholders
- Role of the budget

Accountability – GASB Objectives
1. Interperiod Equity – whether CY revenues were sufficient to pay for CY services
2. Budgetary and Fiscal Compliance – whether resources were obtained and used in accordance with the entity’s legally adopted budget
   - Should also demonstrate compliance with all finance-related legal or contractual requirements
3. Service Efforts and Accomplishments (SEA) – financial reporting should provide information to assist users in assessing the SEA of the governmental entity. Helps users assess:
   - Economy
   - Efficiency
   - Effectiveness

GASB’s Additional Objectives
- Should assist users in evaluating the operating results of the governmental entity for the year.
  - Did financial position improve or deteriorate?
  - Did entity meet its cash requirements?
- Should assist users in assessing the level of services that can be provided and its ability to meet its obligations as they become due.
  - Legal or contractual restrictions on resources?
  - Risks of potential loss of resources?
Financial Statement Users

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 (2014) 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

Taken from GASB ROP

- 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.
- The primary users of state and local government financial reports are those:
  - To whom government is primarily accountable—its 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; whether they are considered primary users depends on whether they have ready access to internal information.

GASB Codification Section 1100 – 13 GAFR Principles

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.
### Governmental Accounting & Financial Reporting Principles (GAFR)

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

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**

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:

- The government environment sometimes has legal and contractual provisions that conflict with GAAP.
- Fiscal accountability creates a need for governments to account/report for restricted-use revenues received and expenditures incurred from other unrestricted revenues and expenditures.
GAFR PRINCIPLE #1
ACCOUNTING AND REPORTING CAPABILITIES

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

GASB Statement 76 – GAAP Hierarchy (superseded GASB 55)

- Effective for periods after June 15, 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Sources</th>
<th>Due Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>GASB Statements</td>
<td>Formally approved by the Board for the purpose of issuing, amending, or rescinding and GASB 55 was superseded by GASB 76.</td>
</tr>
<tr>
<td>B</td>
<td>GASB Technical Bulletins and Implementation Guides</td>
<td>Created by the Board specifically to address issues or implementation matters not covered by GASB 76.</td>
</tr>
</tbody>
</table>

GASB 76 – Sources of Non-Authoritative Literature

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

- 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

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

Exception Principles

- Cost/Benefit
- Materiality
- Conservatism
- Industry Standards
- Substance over Form
Concept 4/GASB 63/65

- Concept 4 – Elements of Financial Statements
- 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

- **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

- 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* (no longer net of related debt)
  - 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. 65, 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

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

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, which are 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

The following types of funds should be used by state and local governments:
- Governmental Funds
- GASB 54
- Proprietary Funds
- Fiduciary Funds
Governmental Funds – GASB 54

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>Accounts for all financial resources except those required to be accounted for in another fund.</td>
</tr>
<tr>
<td>Special Revenue Fund</td>
<td>Accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects.</td>
</tr>
<tr>
<td>Capital Projects Fund</td>
<td>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).</td>
</tr>
<tr>
<td>Debt Service Fund</td>
<td>Accounts for and reports those financial resources that are restricted, committed, or assigned to expenditure for principal and interest.</td>
</tr>
<tr>
<td>Permanent Fund</td>
<td>Accounts for legally restricted resources provided by trust in which the earnings but not the principal may be used for purposes that support the primary government’s programs.</td>
</tr>
</tbody>
</table>

GASB 54 Effect on Funds

- 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:
  - Nonspendable
  - Restricted
  - Committed
  - Assigned
  - Unassigned

GASB 54

- 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 are 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 that are not identified in the other classifications
- Unassigned - the residual classification for the government’s general fund and unassigned spendable amounts not contained in the other classifications
Proprietary Funds

Enterprise Fund
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; or 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.

Internal Service Fund
Accounts for financing of goods 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

Agency Fund
Accounts for assets held by a governmental unit acting as agent for one or more other governmental units, or for individuals or private organizations.

Pension Trust Fund
Accounts for assets held by a governmental unit acting as agent for employee benefit contributions that will be paid to qualified beneficiaries, and disabled employees.

Investment Trust Fund
Accounts for the assets, liabilities, net assets and changes in net assets corresponding to the equity of the external participants.

Private-Purpose Trust Fund
Accounts for legally restricted resources provided by trust which will be used for private purposes.

As a reminder, GASB 34 Effect on Funds

- 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

- **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

- **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

- **GASB 54** does not permit the reporting of negative restricted, committed or assigned fund balances. If this occurs, the government should **reduce any assigned fund balances (in that fund)** by the amount of the negative balance.
  - 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

- 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

- Major Funds include the General Fund and any fund meeting both of the following:
  - Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10 percent of the corresponding element total for all funds of that category or type.
  - The same element that met the 10 percent criterion is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

Major Fund Determinations

- 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 criteria for reporting.
- Use aggregate assets/deferred outflows and aggregate liabilities/deferred inflows in calculation.
- For example - Total of Assets + Deferred Outflows ≥ 10% of TOTAL for ALL funds of that category AND same element is ≥ 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
A clear distinction should be made between general capital assets 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 assets.
- 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
- 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.
- The cost of a capital asset may include capitalized interest.
- If the cost is not practicably determinable, the assets should be reported at estimated 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 43)

GAFR PRINCIPLE #7
DEPRECIATION OF CAPITAL ASSETS
- 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

- 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

- 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

- 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 assets – 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)

- **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)

**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

- **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)

- **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

- **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

<table>
<thead>
<tr>
<th></th>
<th>ACCRUAL</th>
<th>MODIFIED ACCRUAL</th>
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<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td>earned</td>
<td>earned &amp; available</td>
</tr>
<tr>
<td><strong>EXPENSE</strong></td>
<td>incurred</td>
<td>------</td>
</tr>
<tr>
<td><strong>EXPENDITURE</strong></td>
<td>------</td>
<td>incurred and fund liability exists</td>
</tr>
<tr>
<td><strong>TRANSFERS</strong></td>
<td>interfund</td>
<td>interfund</td>
</tr>
<tr>
<td></td>
<td>rec./pay. arise</td>
<td>rec./pay. arise</td>
</tr>
</tbody>
</table>
Expenditures Explored

- 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

- 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

- 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

<table>
<thead>
<tr>
<th>Basis/Measurement - Recap</th>
<th>Governmental Funds</th>
<th>Government-Wide Proprietary &amp; Fiduciary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Focus</td>
<td>Flow of current financial resources</td>
<td>Flow of economic resources</td>
</tr>
<tr>
<td>Terminology</td>
<td>Reserve, Other Financing, Expenditure, Other Financing Item</td>
<td>Reserve, Current Liabilities</td>
</tr>
<tr>
<td>Basis</td>
<td>Modified Accrual</td>
<td>Accrual</td>
</tr>
<tr>
<td>Timing of Revenue Recognition</td>
<td>When reasonable and available</td>
<td>When revenue is realized and is reasonably certain to be collected</td>
</tr>
<tr>
<td>Timing of Expenditure/Expense Recognition</td>
<td>When expenditure is incurred, associating with some exceptions such as interest, claims, compensated absences</td>
<td>When cost is incurred</td>
</tr>
</tbody>
</table>

GAFR PRINCIPLE #9
BASIC FINANCIAL STATEMENTS

- Basic Financial Statements
  - Government-Wide Financial Statements
  - Fund Financial Statements
GASB 34/63
Government-Wide Financial Statements

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

- Government-Wide Statements
- Statement of Net Assets (New Statement of Net Position)
- Statement of Activities
- Both prepared using Accrual Basis
- Both focus on Flow of Econ. Resources
- Both prepared using Accrual Basis
- Both focus on Flow of Econ. Resources

GASB 63 - Statement of Net Position
- 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—it's 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.
Statement of Activities

- 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).
Reporting Special Items and Certain Transfers

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

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

Current Assets and Deferred Outflow of Resources \[\rightarrow\] Current Liabilities and Deferred Inflow of Resources \[\rightarrow\] Fund Balances

Fund Financial Statement Focus Comparison

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Focus Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental Funds</td>
<td>Fiscal accountability, Flow of current financial resources, Modified accrual basis</td>
</tr>
<tr>
<td>Proprietary Funds</td>
<td>Operational accountability, Flow of economic resources, Accrual basis</td>
</tr>
<tr>
<td>Fiduciary Funds</td>
<td>Operational accountability, Flow of economic resources, Accrual basis</td>
</tr>
</tbody>
</table>
Fund Financial Statements

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

Example of Balance Sheet for Governmental Funds for LEA:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Table content]

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Table content]
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 should match the total fund balances reported in the balance sheet.

### Example for LEA

<table>
<thead>
<tr>
<th>Category</th>
<th>General Fund</th>
<th>Debt Service Fund</th>
<th>Other Governmental Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes</td>
<td>$153,862,367</td>
<td>$16,589,425</td>
<td>$—</td>
<td>$170,451,792</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>$6,736,986</td>
<td>$483,183</td>
<td>$—</td>
<td>$7,397,103</td>
</tr>
<tr>
<td>Tuition charges</td>
<td>$1,283,778</td>
<td>—</td>
<td>$4,225,941</td>
<td>$5,509,719</td>
</tr>
<tr>
<td>Facility rental fees</td>
<td>$2,437,009</td>
<td>—</td>
<td>—</td>
<td>$2,437,009</td>
</tr>
<tr>
<td>State revenues</td>
<td>$188,019,530</td>
<td>—</td>
<td>$6,135,833</td>
<td>$194,155,363</td>
</tr>
<tr>
<td>Federal revenues</td>
<td>$2,284,748</td>
<td>—</td>
<td>$22,095,410</td>
<td>$24,380,158</td>
</tr>
<tr>
<td>Other</td>
<td>$107,604</td>
<td>—</td>
<td>$441,559</td>
<td>$549,163</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$354,732,022</td>
<td>$17,072,608</td>
<td>$33,075,677</td>
<td>$404,880,307</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>General Fund</th>
<th>Debt Service Fund</th>
<th>Other Governmental Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction and instruction-related services</td>
<td>$206,958,475</td>
<td>—</td>
<td>$25,936,202</td>
<td>$232,894,677</td>
</tr>
<tr>
<td>Instructional and school leadership</td>
<td>$31,485,279</td>
<td>—</td>
<td>$1,825,705</td>
<td>$33,310,984</td>
</tr>
<tr>
<td>Support services—student</td>
<td>$34,010,001</td>
<td>—</td>
<td>$3,003,049</td>
<td>$37,013,050</td>
</tr>
<tr>
<td>Administrative support services</td>
<td>$9,290,149</td>
<td>—</td>
<td>—</td>
<td>$9,290,149</td>
</tr>
<tr>
<td>Support services—non student-based</td>
<td>$55,615,563</td>
<td>—</td>
<td>$1,308,415</td>
<td>$56,923,978</td>
</tr>
<tr>
<td>Community services</td>
<td>$1,691,107</td>
<td>—</td>
<td>$1,040,189</td>
<td>$2,731,296</td>
</tr>
<tr>
<td><strong>Debt service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>$1,160,471</td>
<td>$11,985,914</td>
<td>$380,561</td>
<td>$13,526,946</td>
</tr>
<tr>
<td>Interest</td>
<td>$378,447</td>
<td>$3,908,791</td>
<td>$124,107</td>
<td>$4,411,345</td>
</tr>
<tr>
<td><strong>Capital outlay</strong></td>
<td>$922,537</td>
<td>—</td>
<td>$8,327</td>
<td>$930,864</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td>$341,512,029</td>
<td>$15,894,705</td>
<td>$33,626,555</td>
<td>$391,033,289</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>General Fund</th>
<th>Debt Service Fund</th>
<th>Other Governmental Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Excess (deficiency) of revenues over expenditures</strong></td>
<td>$13,219,993</td>
<td>$1,177,903</td>
<td>$(550,878)</td>
<td>$13,847,018</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>General Fund</th>
<th>Debt Service Fund</th>
<th>Other Governmental Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OTHER FINANCING SOURCES (USES)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from capital leases</td>
<td>—</td>
<td>—</td>
<td>$692,245</td>
<td>$692,245</td>
</tr>
<tr>
<td><strong>SPECIAL ITEM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of unimproved land</td>
<td>$2,601,908</td>
<td>—</td>
<td>—</td>
<td>$2,601,908</td>
</tr>
<tr>
<td><strong>Net change in fund balance</strong></td>
<td>$15,821,901</td>
<td>$1,177,903</td>
<td>$141,367</td>
<td>$17,141,171</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>General Fund</th>
<th>Debt Service Fund</th>
<th>Other Governmental Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund balances—beginning</strong></td>
<td>$54,938,434</td>
<td>$3,243,534</td>
<td>$1,307,347</td>
<td>$59,489,315</td>
</tr>
<tr>
<td><strong>Fund balances—ending</strong></td>
<td>$70,760,335</td>
<td>$4,421,437</td>
<td>$1,448,714</td>
<td>$76,630,486</td>
</tr>
</tbody>
</table>
GAFR PRINCIPLE #9
BASIC FINANCIAL STATEMENTS

- Proprietary fund statements of net assets and revenues, expenses, and changes in fund net assets 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 resource 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, AND BUDGETARY REPORTING

- 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, AND BUDGETARY REPORTING

- 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.
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.

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).

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

- **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.

<table>
<thead>
<tr>
<th>BUDGETARY ACCOUNTS</th>
<th>NORMAL BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESTIMATED REVENUES</td>
<td>debit</td>
</tr>
<tr>
<td>UNALLOTTED APPROPRIATIONS</td>
<td>credit</td>
</tr>
<tr>
<td>ALLOTED APPROPRIATIONS</td>
<td>credit</td>
</tr>
<tr>
<td>ESTIMATED OTHER FINANCING SOURCES</td>
<td>debit</td>
</tr>
<tr>
<td>ESTIMATED OTHER FINANCING USES</td>
<td>credit</td>
</tr>
<tr>
<td>ESTIMATED EQUITY TRANSFERS IN</td>
<td>debit</td>
</tr>
<tr>
<td>ESTIMATED EQUITY TRANSFERS OUT</td>
<td>credit</td>
</tr>
<tr>
<td>BUDGETARY FUND BALANCE</td>
<td>debit/credit</td>
</tr>
</tbody>
</table>
### Budgetary and Operating Account Relationships

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

### GAFR PRINCIPLE #11

**ACCOUNT CLASSIFICATION**

**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

- Asset Accounts
  - Cash
  - Receivables
  - Investments
  - Prepaid Items
  - Deferred Outflow of Resources

- Liability Accounts
  - Accounts Payable
  - Accrued Liabilities

- Fund Balance Accounts
  - Nonspendable
  - Restricted
  - Corrected
  - Assigned
  - Unassigned

- Operating Statement Accounts
  - Revenues
  - Expenditures
  - Other Financing Sources
  - Other Financing Uses
**GAFR Principle #11**

**Transfer, Revenue, Expenditure and Expense Account Classification**

- 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**

**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**

- 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:
  - Fund
  - Source
  - Secondary class
GAFR #11 - Expenditure Classification

Fund
Function or program
Organization unit
Activity
Character

GAFR PRINCIPLE #11
TRANSFER, REVENUE, EXPENDITURE
AND EXPENSE ACCOUNT CLASSIFICATION

- 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

- 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

- A comprehensive annual financial report (CAFR) 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.
- Governments are not required to prepare a CAFR however the governments 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 CAFR

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 CAFR (continued)

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

From the Financial Section of the CAFR, 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)

- 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)

- 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

- 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

- 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)

- 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 costs and net pension obligation; debt service requirements; etc.
Basic Financial Statements

Overall Objectives

- 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

Analyzing School District Finances

Liquidity Ratios

- Current Ratio = Current Assets / Current Liabilities
- Quick Ratio = (Cash + Investments) / Current Liabilities
- Cash and Investments as Percentage of Current Liabilities

Leverage Ratios

- Debt-to-Assets Ratio = Total Liabilities / Total Assets
- Debt-to-Net Position Ratio = (Total Liab – Total Def Outflows) / Total Net Position

Fiscal Capacity Ratios

- Taxes Per Student = Total Tax Revenues / Total FTE Students
- Debt Per Student = Total Liabilities / Total FTE Students
- Intergovernmental Revenues Percentage of Gross Revenues

Analyzing School District Finances

Financial Position

- (Assets - Liabilities) / Total Revenue
- Change in Financial Position = (Ending Net Position -Beginning Net Position)/TRev
- Cash and Investments as Percentage of Current Liabilities

Ability to Pay/Solvency Ratios

- Debt Per Capita = (Total Liabilities - Total Deferred Outflows) / Total Population
- Debt Per Pupil = (Total Liabilities - Total Deferred Outflows) / Total Student Enrollment
- Instructional and School Leadership Expenses Per Capita = Expenses / Total Population
- Maintenance and Operations Costs Per Sq Ft = Maintenance and Operations Expenses / Total Sq footage of Schools and Buildings
- Debt-to-Assets = Total Liabilities / Total Assets
- Debt-to-Net Position = Total Liabilities / Total Net Position
### GASB RECENT STATEMENTS THAT COULD AFFECT ALABAMA LOCAL EDUCATION AGENCIES

<table>
<thead>
<tr>
<th>Statement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>72</td>
<td>Fair Value Measurement and Application (14) (K</td>
</tr>
<tr>
<td>73</td>
<td>Accounting and Financial Reporting for Pension and Related Assets that Are Not Within the Scope of GASB Statement 40 and Amendments to Certain Provisions of GASB Statement 40 and GASB Statement 130 (K</td>
</tr>
<tr>
<td>74</td>
<td>Financial Reporting of Other than Pension Plans (12) (K</td>
</tr>
<tr>
<td>75</td>
<td>Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans (72) (K</td>
</tr>
<tr>
<td>76</td>
<td>The Diversity of Generally Accepted Accounting Principles for State and Local Governments (32) (K</td>
</tr>
<tr>
<td>77</td>
<td>Tax Abatement Disclosures (72) (K</td>
</tr>
<tr>
<td>78</td>
<td>Resources Provided Through Certain Multi-Employer Defined Benefit Pension Plans (72) (K</td>
</tr>
<tr>
<td>79</td>
<td>Certain External Investment Pools and Pool Participants (64) (K</td>
</tr>
<tr>
<td>81</td>
<td>Blending of Sole Corporate Member (24) (K</td>
</tr>
<tr>
<td>82</td>
<td>Irrevocable Split Interest Agreements (44) (K</td>
</tr>
<tr>
<td>86</td>
<td>Pension Issues – An Amendment of GASB Statement No. 42, 46, and 79 (62) (K</td>
</tr>
<tr>
<td>90</td>
<td>Certain Asset Retirement Obligations (72) (K</td>
</tr>
</tbody>
</table>

### GASB STATEMENT 72 - Fair Value Measurement and Application

<table>
<thead>
<tr>
<th>Feature</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Date</td>
<td>Fiscal years beginning after June 15, 2015</td>
</tr>
<tr>
<td>Issued</td>
<td>February 2015</td>
</tr>
<tr>
<td>Updates</td>
<td>GASB Statement 31 and expands on GASB Statement 53</td>
</tr>
<tr>
<td>To improve</td>
<td>the measurement of resources available to governments and to increase comparability and accountability</td>
</tr>
<tr>
<td>Provides guidance</td>
<td>for determining a fair-value measurement for financial reporting</td>
</tr>
<tr>
<td>Also provides guidance</td>
<td>for applying fair value to certain investments and disclosures related to fair value measurements</td>
</tr>
</tbody>
</table>

### GASB STATEMENT 72 – FAIR VALUE DEFINITION

- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Objective is to estimate the exit price of assets and liabilities from the perspective of a market participant that controls the assets or is obligated for the liability.
- GASB 72 defines an investment as a security or other asset that:
  - A government holds primarily for the purpose of income or profit, and
  - Has present service capacity based solely on its ability to generate cash or to be sold to generate cash.
  - Can be accounted for as single asset or group of assets.
- GASB 72 requires all investments to be measured at fair value except for certain exceptions shown on next slide.
- In most cases, GASB 31 and GASB 72 apply where GASB 72 does not.
Assets Not Measured at Fair Value

<table>
<thead>
<tr>
<th>Investment/Asset</th>
<th>Accounting Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in nonparticipating interest-earning investment contracts</td>
<td>Cost Based Measurement</td>
</tr>
<tr>
<td>Money market investment &amp; participating interest-earning investment contracts</td>
<td>Interest Earning Investment Contract</td>
</tr>
<tr>
<td>Investments held by qualifying external investment pools and in qualifying external investment pools</td>
<td>Amortized Cost</td>
</tr>
<tr>
<td>Investments in life insurance contracts</td>
<td>Cash Surrender Value</td>
</tr>
<tr>
<td>Donated capital assets, works of art, historical treasures, and similar assets</td>
<td>Acquisition Value</td>
</tr>
<tr>
<td>Capital assets received in a service concession arrangement</td>
<td>Acquisition Value</td>
</tr>
</tbody>
</table>

GASB STATEMENT 72 – VALUATION APPROACHES

- Governments should use techniques for which sufficient data is available to measure fair value. Preferable to use observable inputs.
- **Market approach**
  - Uses prices and other relevant data derived from market transactions for identical or similar assets, liabilities, or a group of assets and liabilities.
- **Cost approach**
  - Reflects the amount that would be required currently to replace the present service capacity of an asset
- **Income approach**
  - Converts future amounts to a single discounted amount.
  - Would also reflect any current market expectations for future amounts.

HIERARCHY OF INPUTS USED TO MEASURE FAIR VALUE UNDER GASB 72

- **LEVEL 1** – quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- **LEVEL 2** – inputs, other than quoted prices, that are observable for an asset or liability, either directly or indirectly
- **LEVEL 3** – unobservable inputs for an asset or liability
GASB STATEMENT 72
DISCLOSURES

* The following information is required for each class or type of assets/liabilities measured at fair value:
  * Fair value measurement at end of reporting period and effect of those investments on investment income for the reporting period
  * Level of fair value hierarchy inputs showing how each of the fair value measurements are categorized
  * Description of the valuation techniques used
  * If there has been a change in valuation technique that has significant impact on the result, the change and reasons for making change
  * Fair value measurements categorized within the Level 3 of hierarchy
  * Should be organized by type of asset or liability

EXAMPLE DISCLOSURE

GASB STATEMENT 72
DONATED CAPITAL ASSETS
(Revises GAFR #6)

* Per GASB 72, paragraph 79 – report these at acquisition value (entry price).
* Most common examples – donated infrastructure and art/historical donations

Donated infrastructure:
  * Did you receive any construction cost information from developer?
  * If not, do you have ability to estimate the acquisition cost?

Donated art and historical treasures:
  * Did you receive cost or appraisal information from the donor?
  * If not, do you have a process in place to estimate the acquisition cost (normally through appraisal process)?
GASB 77 Tax Abatement Disclosures

• Effective for reporting dates after December 15, 2015
• Issued August 2015
• Provide users with information about nature and magnitude of the reduction in tax revenues through tax abatement programs.
• Information about revenues that governments forgo is essential to understanding financial position and economic condition, interperiod equity, sources and uses of financial resources, and compliance with finance related legal or contractual requirements.
• Establishes financial reporting standards for tax abatement agreements entered into by state and local governments.
• Disclosures encompass tax abatements resulting from both:
  1. Agreements entered into by the reporting government
  2. Agreements entered into by other governments that reduce the reporting government’s tax revenues.

Definition of Tax Abatement

A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which one or more governments promise to forgo tax revenues to which they are otherwise entitled and the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Key points:
• A principal distinction between tax abatements and other tax expenditures is the existence of an agreement with an individual or entity.
• The agreement generally is in writing or may be implicitly understood.
• Program “label” is not important – key is if it meets the definition.
• The agreement may or may not be legally enforceable.
• The agreement must precede the reduction of taxes and the recipient’s fulfillment of the promise to act.
• The tax reduction may occur before, during, or after fulfillment of the promise – as long as it occurs after the agreement has been entered into.

GASB 77 - Required Disclosures

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<th>Brief Description Information</th>
<th>Government’s Own Abatements</th>
<th>Other Government’s Abatements</th>
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<tr>
<td>Types of recipient commitments</td>
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GASB 77 - Required Disclosures

<table>
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<tr>
<th>Other Disclosure</th>
<th>Government's Own Statements</th>
<th>Other Government’s Abatements</th>
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<tr>
<td>Amounts received or receivable from other governments associated with abated taxes</td>
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<td>Other commitments by the government</td>
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GASB STATEMENT 82 – Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73

- Effective for June 30, 2017 year-end dates
- Return to the use of covered payroll, defined as the payroll on which contributions to a pension plan are based, for the RSI schedules
- Clarify that a deviation from the guidance in Actuarial Standards of Practice, as the term is used in ASOPs, is not considered to be in conformity with the requirements of Statements 67, 68, or 73 for the selection of assumptions in determining the total pension liability
- Payments made by an employer to satisfy contribution requirements identified by plan terms as plan member contributions should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68
- Also requires that an employer’s expense/expenditures for those amounts be classified as a type of compensation expense/expenditures but not as pension expense/expenditures

GASB 82 – Required Supplementary Information

- Schedule of Changes in Net Pension Liability and Related Ratios
  - Covered payroll is the payroll measure that should be presented in the ratios.
  - Covered payroll is the payroll on which contributions to pension plan are based.
  - Applies to plan (GASB 67) and employer (GASB 68) disclosures.
- Selection of Assumptions
  - A deviation from Actuarial Standards of Practice in selecting assumptions to measure the total pension liability is not considered to be in conformity with Statement 67, 68, or 73.
- Employer-paid Member Contributions
  - Member contributions should be classified as such according to the plan terms.
  - Present as member contributions in the plan financial statements.
  - Considered employer contributions for purposes of GASB 68, including in determining an employer’s proportionate share of the net pension liability.
Finally……..you have completed Budgeting and Financial Reporting I

Questions? Thoughts?
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thank you!