

## Updates on GASB's Financial Reporting Model Project

One of GASB's longest-running projects is planned for completion in early 2024. GASB last updated its financial reporting model with the 1999 release of Statement 34. Notable developments include the removal of changes to governmental funds financial statements from the project's scope and that environmental, social, and governance (ESG) risks are not in scope. This article highlights other significant decisions made to date, which are tentative and subject to change until the issuance of a final Statement.



### Background & Project Timeline

Statement 34 established the basic financial statements' format and measurement focus, certain related notes and required supplementary information (RSI), including management's discussion and analysis (MD&A). Statement 34 introduced governmentwide financial statements containing accrual information—which notably included the reporting of infrastructure, other capital assets, and long-term liabilities—for activities previously reported only on a modified accrual basis in the governmental funds. Statement 34 also required a narrative MD&A to precede the financial statements, added the presentation of the original budget to the budgetary comparison schedule, introduced major fund reporting in the governmental and enterprise funds, and added note disclosures related to capital asset and long-term liability activity during the reporting period.



### MD&A

GASB explored options to enhance the required financial statement analysis component, considering the elimination of boilerplate requirements no longer necessary for understanding the financial reporting model, and clarifying guidance for

presenting currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations. Tentative MD&A decisions to date include:

- MD&A length is not limited to a specific number of pages and MD&A should not present “Notes to MD&A Discussion” after notes to financial statements.
- Additional clarifications will be made to the requirement to present a brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide.
- Illustrations for the analysis of year-to-year changes should emphasize the level of thoroughness of the analysis and should include the relative magnitude of the reasons for changes.
- Analysis should be presented in a manner that avoids unnecessary duplication. A government’s professional judgment will determine what information is unnecessarily duplicative. This only includes duplication in the MD&A and not the duplication of information required in financial statement notes.
- Condensed current-year and prior-year financial information derived from the governmentwide financial statements should distinguish between governmental activities and business-type activities.
- A description of significant capital assets and all long-term financing activity during the year should be included in the analysis.
- The discussion of significant variations between the original and final budget amounts and between the final budget amounts and actual results for the general fund should be presented as notes to budgetary comparison information, and presented as RSI.
- The description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations should include in the description examples, if applicable, the following:
  - Trends in economic data, including population growth, customer base, and unemployment rates
  - Details of the subsequent year’s adopted or approved budget, including:
    - Change in rates and bases
    - Changes in planned spending with reference to sources such as inflation, labor contracts with unions, adjustments, and whether new programs were added
    - Expected changes in fund balance
  - The intent of the subsequent year’s budget information should be included to highlight how the subsequent year’s budget will have a significant impact on the financial statements
  - Information related to all actions the government has taken related to postemployment benefit plans, capital improvement plans, and long-term debt

Items to be excluded from the final Statement include:

- ESG risks or general, long-term financial priorities should not be included. GASB confirmed that ESG risks are not in the scope of this project.
- The reference to the summary of significant accounting policies note will not be required.
- The requirement to present an analysis of balances and transactions of nonmajor funds in the aggregate will not be required.
- The requirement to present information about infrastructure assets accounted for using the modified approach will be removed.

## Unusual or Infrequent Items

GASB decided not to include any examples of unusual or infrequent items in the final Statement or to modify the criteria for unusual or infrequent items in existing guidance, but tentatively agreed on the following changes:

- Unusual or infrequent items should be presented individually as the last presented flow(s) of resources prior to the net change in resource flows in the governmentwide, governmental funds, and proprietary funds statements of resource flows.
- Unusual or infrequent items should include both inflows and outflows of resources.
- Inflows and outflows of resources related to unusual or infrequent items should be displayed separately on the governmentwide, governmental funds, and proprietary funds statements of resource flows and should not be netted.
- Information regarding whether an unusual or infrequent item is within the control of management should be disclosed in the financial statements notes.

## Governmental Fund Financial Statements

The project's initial scope included exploring a conceptually consistent measurement focus and basis of accounting and developing a presentation format for governmental fund financial statements consistent with the measurement focus and basis of accounting. In June 2023, GASB tentatively decided to remove issues related to the reporting of government funds from the project's scope.

## Proprietary Fund & Business-Type Activity Financial Statements

GASB explored operating indicator alternatives and the guidance for the separate presentation of operating and nonoperating revenues and expenses and came to the following tentative decisions:

- Operating revenues and expenses should be defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses should be described as:
  - Subsidies received and provided
  - Revenues and expenses related to financing
  - Resources from the disposal of capital assets and inventory
  - Investment income and expenses
  - Contributions to permanent and term endowments
- The exception to the guidance for classification of operating and nonoperating revenues and expenses should indicate that certain loan programs should classify interest revenue as operating revenue and interest expense as nonoperating expense.
- Update to the "subsidies" definition to:
  - Indicate that all transfers should be included
  - Clarify that subsidies can have a direct or indirect impact on user fees and charges
  - Clarify that subsidies should be classified as noncapital subsidies unless limited to capital purposes

- The statement of revenues, expenses, and changes in fund net position should distinguish between operating and nonoperating revenues and expenses, as well as separately report noncapital subsidies and provide a subtotal for operating income (loss) and noncapital subsidies.
- For governments engaged only in business-type activities or only in business-type and fiduciary activities, financial trend information in the statistical sections should distinguish between operating, noncapital subsidy, and other nonoperating revenues and expenses.
- Contributions to permanent and term endowments should be classified as nonoperating revenues.

## Budgetary Comparisons

GASB explored the appropriate method of communication (either as basic financial statements or RSI) for budgetary comparison information and consider whether and, if so, which budget variances should be required to be presented. GASB tentatively decided:

- Budgetary comparison information should be presented as RSI.
- Variances between the original budget and final budget amounts and between the final budget amount and actual results should be presented as part of the budgetary comparison schedule.
- An analysis of significant variations between the original budget and final budget amounts and final budget amounts and actual results should be included in notes to RSI.
- Major component unit information should be separately presented in the reporting entity's statements of net position and activities if statement readability is not reduced. If separate presentation reduces the readability of the statements, combining statements of major component units should be included in the reporting entity's basic financial statements after the fund financial statements.

## Effective Date

When Statement 34 was released, effective dates were staggered into three phases beginning with the largest governments. Up to an additional four years were allowed for Phase 1 (annual revenues of \$100 million or more) and Phase 2 (\$10 million to \$100 million) governments to retroactively report existing infrastructure assets. Phase 3 governments (below \$10 million) were allowed to report general infrastructure prospectively. A staggered implementation timeline also is planned for this project, based on total annual revenues. Governments with total annual revenues of less than \$75 million will have an additional year to apply the requirements of the final standard. Earlier application would be encouraged.

## Conclusion

For some governments, implementing these changes may be complex and likely will require significant hours to implement correctly. **FORVIS** can help educate your team, provide implementation tools, and assist with analysis and documentation. If you would like assistance complying with the new guidance, contact one of our professionals. Our public sector accounting, audit, and consulting experience and resources can help you stay compliant, stretch your dollar, and plan for the future. For more information, visit [forvis.com](https://forvis.com).

## Contributors

**Amy Shreck**

Partner

[amy.shreck@forvis.com](mailto:amy.shreck@forvis.com)

**Anne Coughlan**

Director

[anne.coughlan@forvis.com](mailto:anne.coughlan@forvis.com)