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GASB to Re-Examine State and Local Financial Reporting Model

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WASHINGTON — The Governmental Accounting Standards Board is planning to re-examine the standardized framework that state and local governments use to report their financial information.

The board added the project to its technical agenda on Tuesday. It plans to consider several improvements to components of the financial reporting model, including a change that would cause governments to provide more detail about their debt service funds in their financial reports. It also wants to see if changes can be made that would lead governments to release their financial reports in a more timely fashion.

GASB is likely to begin deliberations on areas of the project in October and will reach tentative conclusions that will help the board to develop an initial "due process document," which is expected to be issued for public comment by the end of next year, according to a memorandum on the project. A final statement or product from the project is not expected to be issued until 2020 or 2021, and the statement would not take effect until after that, said GASB chairman David Vaudt.

The current "blueprint for state and local government financial reporting," was established by GASB Statement 34, which was introduced in 1999, Vaudt said.

That statement established the format of basic financial reports, as well as some of the notes related to the statements and supplementary information such as the management's discussion and analysis (MD&A), according to the memorandum. The MD&A is basically the "plain language" description of the information in the financial statements, Vaudt said.

Statement 34 also called for government-wide financial statements that included the reporting of infrastructure, other capital assets and long-term liabilities. Under the standards, state and local governments provide government-wide financial statements as well as statements on their governmental and proprietary funds, emphasizing major funds.

Over the past few years, GASB's advisory council, which consists of people from stakeholder groups, identified re-examination of the financial reporting model as one of its top priorities for the board to consider, Vaudt said.

GASB's staff conducted research on the idea, including holding nearly a dozen roundtables in 2013 with stakeholders - preparers, auditors and users of financial statements. The data gathered from the roundtables was then used to develop surveys for each type of stakeholders. GASB received survey responses last year from 265 preparers, 164 auditors and 184 users. After receiving the survey data, the board's staff conducted nearly 150 interviews with stakeholders in the first half of this year, Vaudt said.

Through the research, GASB staff learned that "most of the components of the financial reporting model are effective," Vaudt said. "However, a number of areas were identified where improvements could be made."

The most fundamental changes to be explored as part of the new project relate to financial statements on governmental funds. Governments currently use the modified accrual method of accounting for these funds. The modified-accrual method gives more of a short-term look at the funds. GASB wants to examine whether improvements can be made to make sure that governmental funds are measured in a manner that agrees with its conceptual framework for governmental reporting. The board is also going to explore the possibility of having governmental funds measured in a way that is more consistently applied across all governments, Vaudt said.

GASB plans to explore the possibility of extending guidance for "major funds" so that debt service funds are more likely to be considered as part of these types of funds. Users of financial statements said that in most cases, governments' debt service funds didn't qualify as major funds, but that they would like to see more detail about debt service funds in financial reports, Vaudt said.

When it comes to government-wide financial statements, questions were raised about the effectiveness of the statement of activities because of the format and whether that could be improved. The board will also consider whether a government-wide statement of cash flows should be required, according to Vaudt and the board's memo.

When it comes to the MD&A section, GASB will focus on exploring "making this section more meaningful," Vaudt said. The board will look at whether some sections of the MD&A could be eliminated and how guidance on other sections could be enhanced.

"There's just been concern from the user group that many a times, the disclosures become very boilerplate and don't really get into the whys behind their changes," Vaudt said. For example, the section will state that a metric increased by a certain amount but won't explain the reasons for the gain, he said.

Throughout the project, an important part of GASB's work will be to look for areas where the complexity and length of financial statements can be reduced. "One of the primary criticisms of government finance reports is they're not available on a timely basis," Vaudt said.

Vaudt said he thinks everyone acknowledges there's always room to improve the financial reporting model, though there may be some resistance to change. When Statement 34 was first developed, it was very controversial. Vaudt noted that, as he's mentioned re-examining the financial model, some people have said they don't want there to be changes to it.