



## Invitation to Comment

**December 7, 2016**

**Comments Due: March 31, 2017**

Invitation to Comment  
of the Governmental Accounting Standards Board  
on major issues related to

## **Financial Reporting Model Improvements— Governmental Funds**

**Project No. 3-251**

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**Governmental Accounting Standards Board**

# **FINANCIAL REPORTING MODEL IMPROVEMENTS— GOVERNMENTAL FUNDS**

## **Notice of Public Hearings and User Forums, and Request for Written Comments**

### **PUBLIC HEARINGS**

#### **Public hearings are scheduled as follows:**

- April 28, 2017, at the Georgia State Accounting Office, 200 Piedmont Avenue, SE, West Tower, Room 1514, Atlanta, GA, beginning at 8:30 a.m. local time.
- May 3, 2017, at the Four Points by Sheraton DFW Airport North, 1580 Point West Boulevard, Coppell, TX, beginning at 8:30 a.m. local time.
- May 11, 2017, at the Embassy Suites SFO Airport-Waterfront, 150 Anza Boulevard, Burlingame, CA, beginning at 8:30 a.m. local time.
- May 21, 2017, at the Hyatt Regency Denver at Colorado Convention Center, 650 15<sup>th</sup> Street, Denver, CO, 8:00 a.m. to 1:30 p.m. local time (in conjunction with the annual conference of the Government Finance Officers Association).
- May 24, 2017, at the Financial Accounting Foundation offices, 401 Merritt 7, 5<sup>th</sup> Floor, Norwalk, CT, beginning at 8:30 a.m. local time.

#### **User forums are scheduled as follows:**

- April 27, 2017, at the Sheraton LaGuardia East, 135-20 39<sup>th</sup> Avenue, Flushing, NY, 9:00 a.m. to 12:00 p.m. local time.
- May 12, 2017, at the Embassy Suites SFO Airport-Waterfront, 150 Anza Boulevard, Burlingame, CA, 8:30 to 11:30 a.m. local time.
- May 18, 2017, at the Mandarin Oriental Washington, 1330 Maryland Avenue, SW, Washington, DC, 1:00 to 4:00 p.m. local time (in conjunction with the annual conference of the National Federation of Municipal Analysts).

**Public hearings.** The first four public hearings are being conducted primarily for interested individuals or organizations that intend to participate in person. Interested individuals or organizations may participate in the final public hearing in person or by telephone. Details regarding participation will be provided after the GASB receives a notice of intent to participate.

**User forums.** Interested individuals or organizations from the financial statement user community may participate in a user forum in person or by telephone. Participation in person is encouraged. Details regarding participation will be provided after the GASB receives a notice of intent to participate.

**Deadline for written notice of intent to participate in the public hearings and user forums:** March 31, 2017

**Basis for public hearings and user forums.** The GASB has scheduled the public hearings and user forums to obtain information from interested individuals and organizations about the issues discussed in this Invitation to Comment. The hearings and forums will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate at the hearings and forums, as appropriate, and through written response.

**Public hearing oral presentation requirements.** Individuals or organizations that want to make an oral presentation in person or by telephone at a public hearing are required to provide, **by the deadline for notice of intent to participate (March 31, 2017)**, a written notification of that intent. A copy of written comments addressing the issues discussed in this Invitation to Comment should be provided three weeks before the hearing. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 3-25I, and emailed to [director@gasb.org](mailto:director@gasb.org) or mailed to the address below. The notification should indicate the location of the public hearing at which the respondent would like to participate, and in the case of the Norwalk, CT public hearing, preference for participating in person or via telephone. A public hearing may be canceled if sufficient interest is not expressed by the deadline.

The Board intends to schedule all respondents who want to make oral presentations and will notify each individual or organization of the expected time of the presentation. The time allotted each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

**User forum participation requirements.** Participation in the forums are limited to external financial statement users, such as municipal bond analysts, taxpayer group members, and legislators. All participants are asked to engage in a discussion of the issues raised in the Invitation to Comment, additional issues raised by the Board members and staff, and issues raised by other participants. Every participant will be provided with the opportunity to express his or her views.

**Observers.** Observers are welcome at the public hearings and user forums and are urged to submit written comments.

## WRITTEN COMMENTS

**Deadline for submitting written comments:** March 31, 2017

**Requirements for written comments:** Any individual or organization that wants to provide written comments but does not intend to participate in a public hearing should provide those comments by **March 31, 2017**. Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-25I, and emailed to [director@gasb.org](mailto:director@gasb.org) or mailed to the address below.

## OTHER INFORMATION

**Public files.** Written comments and transcripts of the public hearings and user forums will become part of the Board's public file. Written comments also are posted on the GASB's website. Copies of the transcripts may be obtained for a specified charge.

**Orders.** This Invitation to Comment may be downloaded from the GASB's website at [www.gasb.org](http://www.gasb.org). For information on prices for printed copies, please contact the Order Department at the following address:

Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Telephone Orders: 1-800-748-0659

*Please ask for our Product Code No. GV15.*

GASB publications also may be ordered at [www.gasb.org](http://www.gasb.org).

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## Notice to Recipients of This Invitation to Comment

The Governmental Accounting Standards Board (GASB) is responsible for (1) establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and (2) educating stakeholders—including issuers, auditors, and users of those financial reports—on how to most effectively understand and implement those standards.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, the GASB staff has prepared this Invitation to Comment to solicit comments on certain issues that will be addressed in the GASB's financial reporting model reexamination project. This Invitation to Comment identifies potential improvements related to recognition and presentation of governmental funds and invites respondents to comment on them and identify additional relevant issues.

An Invitation to Comment is a staff document designed to seek comments at a relatively early stage of a project before the Board has reached a consensus view. This Invitation to Comment is a step toward a Preliminary Views and an Exposure Draft of a Statement of Governmental Accounting Standards but is *not* an Exposure Draft, nor does it present a preliminary view of the Board. The GASB solicits written comments from the public on the accounting and financial reporting issues associated with governmental funds addressed in this Invitation to Comment.

We invite your comments on all matters in this Invitation to Comment, especially those addressed in the questions on the following pages. Respondents are requested to give their views only after reading the entire text of this Invitation to Comment. Because the Board has not yet developed tentative views on these issues, it is important that you comment on any aspects with which you agree, as well as any with which you disagree. To facilitate our analysis of the response to this Invitation to Comment, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations. Only after the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, will the Board vote to issue a Preliminary Views. In deciding on changes in accounting and financial reporting standards, the GASB also takes into consideration the costs of preparing and reporting the information and its benefits to users of financial statements. The Board also will seek and consider comments on a Preliminary Views and an Exposure Draft before a final Statement is considered for issuance.

## Summary

### Why We Are Issuing This Invitation to Comment

This Invitation to Comment is being issued to obtain stakeholder feedback on potential improvements to the existing financial reporting model for governmental funds. These potential improvements include:

- Recognition approaches (measurement focus and basis of accounting)
- Format of the governmental funds statement of resource flows
- Specific terminology
- Reconciliation to the government-wide statements
- For certain recognition approaches, a statement of cash flows.

Under the existing reporting model, governmental fund financial statements present information using the current financial resources measurement focus and modified accrual basis of accounting, which has certain conceptual shortcomings. First, some stakeholders, depending on their viewpoint, question the effectiveness of those financial statements. Governmental fund financial statements convey information about fiscal accountability, which reflects a shorter time perspective than the information conveyed in the government-wide financial statements and focuses on financial, rather than economic, resources. However, the governmental fund financial statements may not clearly communicate to all users of financial statements that the information presented is limited to a shorter time perspective and that information necessary for demonstrating operational accountability (a longer time perspective and a focus on economic resources) is not presented. For example, the existing governmental fund financial statements present assets and liabilities, but the fact that additional long-term assets and liabilities are presented in the government-wide financial statements may not be clear to all users. Some users continue to rely solely on the information in governmental fund financial statements to inform decisions that have longer term implications.

Second, the current financial resources measurement focus and modified accrual basis of accounting, which guides recognition of elements such as assets and liabilities in governmental fund financial statements, lacks a conceptual foundation. Rather, this collection of accounting conventions is intended to present primarily a shorter time perspective of the activities reported. Some stakeholders question whether items that do not have a shorter time perspective, such as receivables that are long term, or items that may not be financial in nature, such as inventories and prepaid items, should continue to be reported as assets in governmental funds. Some stakeholders believe that governmental funds should present assets and liabilities that mature within a consistent time frame following period-end.

Third, because of the lack of a conceptual foundation, it is challenging to establish guidance for reporting more complex transactions, such as derivative instruments and service concession arrangements. Because those transactions are so unlike existing transactions, inferring guidance related to existing transactions is not possible. A conceptual understanding of what should be recognized in governmental fund financial statements is needed.

Other potential improvements to the financial reporting model—including improvements to the format of the resource flows statement and a statement of cash flows for certain recognition

approaches—were developed as a result of the pre-agenda research conducted by the GASB, which reexamined the effectiveness of the financial reporting model.

## **What We Expect to Learn from the Responses to This Document**

An Invitation to Comment is a staff document that is issued in the early stages of a project's due process cycle, before the Board has reached tentative agreement on how to address the issues raised in the project. As such, this is a key opportunity for stakeholders to influence the direction of the Board's deliberations on the fundamental issues being considered. It is important for stakeholders to provide their feedback on these issues by answering the questions posed in this document and providing explanations for each response. A complete listing of the questions for respondents is presented immediately following this summary section. The questions also are presented at the end of Chapters 2 and 3.

In addition to stakeholder views on which of the alternatives provides the most valuable information, the GASB also is seeking feedback on how to improve and reduce the number of alternatives and on the benefits and costs of the potential improvements. All feedback will (1) be reviewed by the Board, (2) inform the Board's future deliberations, and (3) assist the Board in developing proposals related to these issues for a future due process document.

## **What Is Presented in This Document**

This Invitation to Comment addresses potential improvements to fundamental issues of the GASB's financial reporting model reexamination project: (1) the measurement focus and basis of accounting for governmental funds and (2) the presentation of governmental fund financial statements.

Other topics related to the financial reporting model for which improvements are expected to be considered in future due process documents include:

- Management's discussion and analysis
- Government-wide statement of activities
- Debt service fund presentations
- Permanent funds
- Proprietary funds
- Extraordinary and special items
- Budgetary comparisons.

This project is intended to consider improvements to only selected aspects of the existing model. Chapter 1 provides additional detail about the anticipated scope and timing for proposals related to these topics. Chapter 1 also provides additional detail on the objective of the project and an overview of the major issues related to the potential improvements addressed in this Invitation to Comment.

Three alternative recognition approaches for governmental fund financial statements are introduced: (1) near-term financial resources, (2) short-term financial resources, and (3) long-term financial resources. Chapter 2 describes key features of each recognition approach, including the messages that would be conveyed by financial statements prepared using each recognition approach, recognition concepts, and potential benefits and challenges.

Additionally, this Invitation to Comment introduces a potential improvement to the reconciliations from information in governmental fund financial statements to information in the government-wide financial statements. These reconciliations would be presented in a condensed form on the same page as the balance sheet or resource flows statement.

Chapter 3 introduces a potential improvement to the basic financial statements with the inclusion of a statement of cash flows for the short-term financial resources and long-term financial resources recognition approaches. Chapter 3 also discusses two presentation format alternatives that are being considered for the resource flows statement for governmental funds: (1) retaining the existing format, which generally presents inflows and outflows of resources considered revenues and expenditures separately from those flows that are reported as other financing sources and uses, and (2) a current and long-term activity format, which would report inflows and outflows of resources related to capital assets and long-term debt separately from the inflows and outflows of resources of other activities of a governmental fund.

## QUESTIONS FOR READERS OF THIS INVITATION TO COMMENT

Individuals and organizations are invited to comment on all matters in this Invitation to Comment. Respondents are encouraged to respond to all questions that are relevant or of interest to them. It is not necessary to provide responses to all questions. The questions are repeated at the end of each applicable chapter for your convenience.

### Chapter 2: Recognition Approaches for Governmental Fund Financial Statements

2.1. Do you believe that governmental fund financial statements should continue to present information that reflects a shorter time perspective than the information presented in the government-wide financial statements and that focuses on financial, rather than economic, resources? Why?

2.2. Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government's budgetary information? Why?

2.3. Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability<sup>1</sup> of the government? Why do you consider that information most relevant?

2.4. Transactions related to tax anticipation notes or revenue anticipation notes are presented differently under the three recognition approaches. In the near-term approach, borrowings on and repayments of these notes would be reported as inflows and outflows of resources on the statement of resource flows and in the reconciliation to the government-wide statement of net position. In the short-term and long-term approaches, outstanding balances of these notes would be reported as liabilities on the balance sheet, and borrowings on and repayments of these notes would be reported in the statement of cash flows. (See the discussion in Chapter 3.) Which approach to the reporting of these notes provides the most valuable information? Why?

2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. (See the discussion in paragraphs 38–40 of Chapter 2.) What definition of financial resources provides the most valuable information? Why? Do you consider prepaid items to be financial resources? Why? Do you consider inventory to be financial resources? Why?

2.6. For the recognition approach that you believe provides the most valuable information, how would you change that recognition approach to provide information that is more valuable? How would those changes make the information more valuable?

2.7. Paragraph 6 of Chapter 2 discusses a same-page reconciliation to government-wide information and the use of specific terminology to more clearly communicate that the information in governmental fund financial statements is of a shorter time perspective than information in the government-wide financial statements and focuses on financial, rather than economic, resources. Are these changes effective in communicating that the information in governmental fund financial

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<sup>1</sup>Fiscal accountability reflects a shorter time perspective than that conveyed by the information in the government-wide financial statements and focuses on financial, rather than economic, resources.

statements is different from the information in government-wide financial statements? How could those differences be communicated more effectively?

### **Chapter 3: Other Governmental Fund Financial Statement Issues**

3.1. Which format for the governmental funds resource flows statement—existing format or current and long-term activity format—provides the most valuable information about governmental funds? Why do you consider the information to be more valuable?

3.2. Should a statement of cash flows be required for governmental funds? Why?

3.3. What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?

3.4. Are the four classifications for the statement of cash flows from Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, the most appropriate for governmental funds? If not, what classifications would be most appropriate?

## CHAPTER 1—INTRODUCTION

### Objective of the Financial Reporting Model Reexamination Project

1. The objective of this project is to make improvements to key components of the financial reporting model.<sup>2</sup> The purpose of these improvements is (a) to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and (b) to address certain application issues identified through pre-agenda research conducted by the GASB.
2. As supported by stakeholder feedback received during the pre-agenda research, the approach to this project is to identify specific potential improvements to the existing financial reporting model, rather than to take a "clean slate" approach that could result in a completely new financial reporting model. Accordingly, this project is not expected to introduce changes to every aspect of the existing financial reporting model. Appendix A provides a more comprehensive discussion of the background of this project.
3. This Invitation to Comment seeks feedback from stakeholders on potential improvements to the existing financial reporting model related to governmental fund financial statements. To provide a clearer understanding of the financial position of governmental funds and flows of resources associated with those funds, the Invitation to Comment considers (a) the measurement focus and basis of accounting of the governmental fund financial statements, (b) the presentation format of the governmental fund statement of resource flows, (c) specific terminology, (d) the reconciliation to the government-wide financial statements, and (e) whether a governmental fund statement of cash flows should be added for some of the measurement focus and basis of accounting alternatives. As noted below, this document does not address the reporting of permanent funds.
4. In addition to the topics discussed in this Invitation to Comment, the following topics are expected to be included in a Preliminary Views in the next phase of the project:
  - a. *Government-Wide Statement of Activities*—The Board will consider alternatives for the format of the statement of activities.
  - b. *Proprietary Fund Financial Statements*—The Board will consider reporting alternatives related to the existing requirement to separately present operating and nonoperating revenues and expenses.
  - c. *Budgetary Comparisons*—The Board will consider alternatives for the appropriate method of communication (as a basic financial statement or required supplementary information) for budgetary comparison information and which budget variances, if any, should be required to be presented.

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<sup>2</sup>These key components include the accounting and financial reporting requirements in National Council on Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*, GASB Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

d. *Permanent Funds*—The Board will consider alternatives for reporting information about permanent funds.

5. In addition to the topics discussed in the Preliminary Views, the following topics are expected to be included in an Exposure Draft in a future phase of the project:

a. *Management's Discussion and Analysis*—The Board will consider alternatives for enhancing the financial statement analysis component of management's discussion and analysis (MD&A), eliminating components of MD&A that are boilerplate and no longer necessary for understanding the financial reporting model, and clarifying guidance for presenting the section of MD&A on currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

b. *Debt Service Fund Presentations*—The Board will consider alternatives for providing additional information about debt service funds, either individually or in aggregate, in the basic financial statements.

c. *Extraordinary and Special Items*—The Board will consider alternatives to improve the consistency of application of the guidance for reporting extraordinary and special items.

As appropriate and in conjunction with other topics, the Board will consider alternatives that could permit more timely financial reporting or that could reduce complexity overall.

## **Overview of Major Issues**

6. A fundamental matter that is being addressed in this project is the form and content of governmental fund financial statements, including their measurement focus and basis of accounting, to make them more effective, consistent, and understandable.

## **Concerns with the Existing Reporting of Governmental Fund Information**

### ***Effectiveness of Governmental Fund Information***

7. The governmental fund financial statements arguably are not as effective as they could be in providing information that is essential for decision making and assessing a government's fiscal accountability. These statements have maintained a shorter time perspective than the information presented in the government-wide financial statements and have focused on financial, rather than economic, resources. Participants in the pre-agenda research noted that the effectiveness of the governmental fund financial statements is diminished as a result of (a) conceptual inconsistencies and the effects of complex transactions, as discussed below, and (b) a presentation method that does not clearly convey that certain assets and liabilities of a long-term nature are not included. Further, when the information in governmental fund financial statements is relied on exclusively, decisions and assessments may be made with incomplete information. It is important to consider a measurement focus and basis of accounting for and presentation of governmental fund financial statements that provides a clearer understanding of the shorter time perspective of the financial position and resource flows of the governmental funds.

## ***Conceptual Consistency***

8. The current financial resources measurement focus, which is used at present for reporting governmental funds, does not have a cohesive, conceptual foundation. Rather, it is applied as a collection of accounting conventions intended primarily to present a shorter time perspective of the activities reported. The accounting principles that are applied through the current financial resources measurement focus reflect the goal of maintaining what traditionally has been a shorter time perspective in the governmental fund financial statements. Issuances of long-term debt currently are reported as other financing sources in the statement of revenues, expenditures, and changes in fund balances, and payments on long-term debt currently are reported as expenditures. In that financial statement, acquisitions of capital assets also are reported as expenditures. This reflects the fact that from a shorter time perspective, these transactions produce cash or require the use of current financial resources. Yet these statements still include the effects of certain transactions involving assets and liabilities that do not reflect a shorter time perspective. Consequently, the resultant information conveyed in financial statements prepared using the current financial resources measurement focus is inconsistent.

9. One of the concerns about financial statements prepared using the current financial resources measurement focus is whether they should present assets and liabilities that do not reflect a shorter time perspective. As previously noted, the assets reported in the governmental fund balance sheet include some financial resources that do not reflect a shorter time perspective. Although the assets reported generally are financial assets, they include receivables that are long-term or not expected to be collected in sufficient time to be available to satisfy obligations of spending of the reporting period. Additionally, some stakeholders question whether inventories and prepaid items should continue to be considered financial resources. Furthermore, the current financial resources measurement focus for reporting governmental funds evolved before financial statements for most governmental activities were reported using the economic resources measurement focus. Now that information about governmental activities is presented in the government-wide financial statements, which are prepared using the economic resources measurement focus, some believe that it may be appropriate for financial statements of governmental funds to present only those items needed to convey information about balances and flows from a shorter time perspective.

10. By contrast, some believe that it may be appropriate for financial statements of governmental funds to additionally convey some information about balances and resource flows from a longer time perspective to more completely portray the financial position of governmental funds.

## ***Guidance for Complex Transactions***

11. Another concern about governmental fund financial statements is how to report the effects of more complex transactions, such as those involving derivative instruments and service concession arrangements. Because those complex transactions are so unlike existing transactions and balances, it may not be appropriate to apply current financial resources measurement focus accounting conventions to them. A conceptual foundation of what should be recognized in governmental fund financial statements is needed to determine appropriate accounting provisions for complex transactions.

## **Key Considerations in Developing Potential Improvements to Governmental Fund Financial Reporting**

### ***Significance of the Budget to Governmental Fund Financial Statements***

12. For most governments, the budget has legal significance. Governmental budgets are expressions of public policy priorities that legally authorize the raising of public resources and legally specify the purposes for which public resources may be spent. In fact, governmental budgets may be the primary method by which citizens and their elected representatives hold the government's management financially accountable. As a result, maintaining the relationship between the information provided by governmental fund financial statements and the budget is a consideration when determining the appropriate measurement focus and basis of accounting for and presentation of governmental fund financial statements. Maintaining the linkage between the governmental fund financial statements and the budget may be facilitated by (a) retaining the fund structure currently used in governmental fund financial statements and (b) focusing governmental fund financial reporting on balances and flows of a shorter time perspective.

### ***Improving Utility and Understandability***

13. The results of the GASB's pre-agenda research show that governmental fund financial statements are consistently rated as valuable, with disaggregation of information into funds and consistency with how the government is managed (linkage to the budget) cited as the principal reasons. Nevertheless, some feedback indicates that the information in these statements may be difficult for some to understand due to the unique measurement focus and basis of accounting and may be perceived by some to be incomplete because they omit longer term information.

14. For these reasons, it is important to establish a conceptual foundation for the measurement focus and basis of accounting for governmental fund financial statements that may be used consistently by governments. As a result, this Invitation to Comment introduces three alternatives for the measurement focus of governmental fund financial statements. (See Chapter 2.)

15. Another critical aspect of improving governmental fund financial statements is developing the terminology and format for these statements that clearly communicate the information presented. To address the feedback received during the pre-agenda research process, this Invitation to Comment presents two potential formats for the governmental fund resource flows statement: the existing format and the current and long-term activity format.

### ***Objectives of Financial Reporting***

16. Most of the objectives established in Concepts Statement No. 1, *Objectives of Financial Reporting*, can be met, at least partially, in a single financial report, but they cannot all be adequately met with one statement of financial position and one resource flows statement. Some of the objectives are best addressed by reporting information for individual funds or fund types; other objectives require information that focuses on the entire government as an economic entity. Some of the objectives focus on providing information required for decisions about short-term financing needs and legal compliance; other objectives address users' needs for information with a longer term focus. Different components of the existing financial reporting model meet different

objectives of financial reporting. Appendix B provides a more comprehensive discussion of the principles underlying the financial reporting model.

### **Considerations Related to Benefits and Costs**

17. One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. One purpose of this Invitation to Comment is to obtain input on the benefits and costs associated with the alternatives that are discussed. Should the Board decide to develop additional due process documents in this project, it may conduct a field test to gather additional information about the potential cost of any proposed standards.

## **CHAPTER 2—RECOGNITION APPROACHES FOR GOVERNMENTAL FUND FINANCIAL STATEMENTS**

### **Introduction**

1. Recognition of elements in financial statements is driven by both the measurement focus and basis of accounting. Measurement focus refers to *which* resources are being recognized in the balance sheet or statement of net position; basis of accounting refers to *when* an event is reported. Each of the three recognition approaches presented below use a different application of the accrual basis of accounting to accommodate its unique measurement focus.

### **Recognition Approaches**

2. This Invitation to Comment presents three alternatives for the recognition approach for governmental fund financial statements: the near-term financial resources approach (near-term approach), the short-term financial resources approach (short-term approach), and the long-term financial resources approach (long-term approach). The three recognition approaches provide a spectrum of alternatives related to which assets, deferred outflows of resources, liabilities, and deferred inflows of resources are reported in governmental fund financial statements.

3. The terminology used to describe the financial statements and the elements of financial statements in the discussion of each of the recognition approaches is consistent with Concepts Statement No. 4, *Elements of Financial Statements*. The generic names used have the same meaning in any of the three measurement approaches being discussed in order to avoid any connotations associated with how they are used in existing practice. For example, this Invitation to Comment refers to the “statement of resource flows” rather than the “statement of revenues, expenditures, and changes in fund balance” and “outflows of resources” rather than “expenditures.” The use of this terminology is not meant to imply that any final determinations related to governmental fund financial statement terminology have been made.

### **Common Characteristics of the Approaches**

#### **Relationship with Budgetary Reporting**

4. The significance of the budget related to governmental funds distinguishes governments from the private sector. Budgets are integral to managing a government, yet governments do not all use the same approach to budgeting. Consequently, comparison of budgetary information to financial statement information presented using a consistent recognition approach may yield varying results. All three recognition approaches provide some ability to evaluate a government’s budget because all three retain the fund structure of governmental funds used in the existing financial reporting model, which is consistent with the budgetary presentations of many governments. However, the three approaches differ with regard to the ability to use fund balance to assess how much is available for spending in the subsequent period from a budgetary perspective. Financial statements using the near-term approach, which have a shorter time perspective, would present information that may be more useful for assessing the amount of unspent resources at year-end that is available for spending in the next period. As such, the near-term approach may align more closely with budgetary information, which normally is prepared

using a shorter time perspective. The short-term approach and the long-term approach progressively lengthen the time focus of the financial statements, and the information they provide may be less useful for assessing amounts available for spending in the subsequent period from a budgetary perspective. For example, fund balance in the short-term approach is reduced by certain postemployment benefit liabilities and principal payments of long-term debt, which may not affect amounts available for spending from a budgetary perspective. Fund balance in the long-term approach is reduced by all postemployment benefit liabilities and debt not related to capital assets, which also may not affect amounts available for spending from a budgetary perspective.

### **Focus on Financial Resources**

5. Consistent with maintaining a relationship with budgetary information, all three recognition approaches focus on reporting financial resources, claims that will be liquidated using financial resources, and flows of financial resources. There is, however, no universally agreed upon definition of financial resources. As indicated below in the sections on each of the recognition approaches, a different definition of financial resources is applied in the near-term approach than is applied in the short-term and long-term approaches. The differences arise due to differing views on whether prepaid items and inventory are financial resources. Additional discussion of this issue is in paragraphs 38–40 of this chapter.

### **Same-Page Reconciliation and Clearer Descriptions**

6. Through a same-page reconciliation to government-wide information, as well as clearer titles, descriptions, and labels, all three recognition approaches aim to reduce or eliminate the possibility of inappropriately using information in governmental fund financial statements when trying to assess long-term issues. The reconciliation more prominently identifies the recognition differences between the governmental fund information and governmental activities information in the government-wide financial statements, and may serve to draw users to the government-wide financial statements if they want to better understand the items not recognized in governmental funds. The recognition differences identified in the reconciliations also can be used by readers of this Invitation to Comment to better understand the differences in the recognition approaches. The illustrations of financial statements for the three recognition approaches in Appendix D include titles, additional explanations, and line item descriptions that more clearly communicate their measurement focus. These potential improvements are intended to clarify that the governmental fund financial statements present a shorter time perspective of the governmental fund activities and exclude items of a long-term nature. Further, only the government-wide financial statements are intended to provide a complete portrayal of the financial position and resource flows related to governmental activities.

7. Additional information about all three of the recognition approaches is presented in Appendices C, D, and E. Appendix C presents the objectives of financial reporting from Concepts Statement 1 and discusses how each of the recognition approaches introduced in this Invitation to Comment, the existing current financial resources financial statements, and the government-wide financial statements relate to the objectives of financial reporting. Appendix D presents illustrations of the three recognition approaches for a general purpose government, as well as the existing current financial resources financial statements for purposes of comparison. Appendix E discusses selected transactions included in the illustrations and explains how those transactions are

recognized in the financial statements for each of the recognition approaches and in the existing current financial resources financial statements presented in Appendix D.

## **Guidance for Complex Transactions**

8. Each of the three recognition approaches sets forth a conceptually consistent foundation for providing guidance for governmental funds to report the effects of more complex transactions. For example, transactions involving derivative instruments, service concession arrangements, and other transactions for which guidance is not currently provided can be addressed using any of these recognition approaches.

## **Near-Term Approach**

### **Messages Conveyed by Near-Term Financial Statements**

9. The near-term approach would report balances of governmental fund activities from a near-term perspective and flows of near-term financial resources for the reporting period. Financial statements prepared using this recognition approach would provide information about spending and resources available for spending that were acquired during the reporting period. Financial resources in this approach are resources that are expected to be converted into cash. Under the near-term approach, financial statements would enable assessments of the amount of unspent resources at year-end that are available for spending in the next period. Further, because the near-term approach presents a shorter time perspective and excludes items of a long-term nature, it provides financial results that may be comparable to budgetary information, which usually relates to shorter periods of time as well. (See Illustrations 3, 4A, and 4B in Appendix D.)

10. The length of time following the end of the reporting period that would be included in the near-term perspective generally would be in the range of 60 to 90 days. In a subsequent phase of this project, if the Board were to further develop the near-term approach, it would deliberate whether to prescribe a length of time following the end of the reporting period that would be considered near term and, if so, what that period should be.

### **Recognition Concepts for the Near-Term Approach**

11. As discussed in the 2011 Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches*, the near-term approach is consistent with the objective of developing a conceptually sound foundation and would be based on a concept of symmetry for assets and liabilities. Assets would include resources that are receivable<sup>3</sup> at period-end and that normally<sup>4</sup> are due<sup>5</sup> to convert to cash within the near term (as well as cash and other financial resources that are available to be converted to cash within the near term). Long-term receivables involving delayed payment terms (future scheduled receipts) would be recognized when payments become due. Liabilities would include those that are payable at period-end and that normally are

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<sup>3</sup>*Receivable* (and *payable*) refers to the fact that the underlying transaction that creates an asset or liability has occurred.

<sup>4</sup>Consistent with its use in Interpretation 6, *normally* as used in this approach refers to circumstances for governments in general, not the potentially unique circumstances of a single government.

<sup>5</sup>*Due*, as used in this approach, refers to the date at which payment is scheduled or, if not scheduled, expected to be made.

due within the near term. Principal on debt and other-than-near-term obligations would be recognized when they become due because the transactions involve delayed payment terms. For example, debt with a maturity date of one day after period-end would not be recognized as a liability in this approach. The concept of *normally* is intended to enhance consistency by requiring governments to recognize assets and liabilities in a manner consistent with other governments. For example, in the context of accounts payable, *normally* refers to a period within 60–90 days of the invoice date because most governments pay their bills within this period. A government that pays certain invoices six months after the invoice date still would report those payables as fund liabilities because delaying payment on accounts payable for six months is the exception, not the norm.

12. Examples of assets that would be recognized include:

- a. Cash and investments
- b. Accounts receivable that normally are due within the near term
- c. Property taxes receivable that normally are due within the near term
- d. Long-term receivables with delayed payment terms that have matured.

Examples of assets that would *not* be recognized include:

- e. Prepaid items
- f. Inventory
- g. Long-term receivables that have not matured
- h. Capital assets, including intangible assets.

13. Examples of liabilities that would be recognized include:

- a. Accounts payable and accrued payroll
- b. Accrued interest payable that normally is due within the near term
- c. Compensated absences payable that normally are due within the near term
- d. Any unpaid balances due on long-term operating debt or capital-related debt and tax anticipation notes or revenue anticipation notes that matured during the period
- e. Net pension and other postemployment benefit liabilities that normally are due within the near term.

Examples of liabilities that would *not* be recognized include:

- f. Portions of compensated absences liabilities that normally are not due within the near term
- g. Long-term operating debt or capital-related debt and tax anticipation notes or revenue anticipation notes that have not matured
- h. Net pension and other postemployment benefit liabilities that normally are not due within the near term
- i. Asset retirement obligations that normally are not due within the near term.

14. Outflows of resources for a reporting period would be recognized as spending occurs for the period. Spending would not refer exclusively to cash payments. Spending would include (a) payments made during the reporting period and payments normally made shortly after period-end for acquiring goods, services, capital assets, and other-than-near-term financial resources during

the period and (b) principal payments on matured debt and other-than-near-term obligations. Depreciation would not be recognized as an outflow of resources because capital assets are not considered financial resources and are not recognized as assets. Examples of transactions that would be recognized as outflows of resources include:

- a. Payments related to salaries and wages
- b. Purchases of goods and services, including prepayments for goods and services to be received in future periods
- c. Purchases of inventories
- d. Long-term lending activities
- e. Interest payments on borrowings to the extent that the interest has accrued and is due either during the period or within the near term
- f. Principal payments on all borrowings, including long-term operating and capital-related debt and tax anticipation notes or revenue anticipation notes, that mature in the period
- g. Capital outlays.

An example of a transaction that would *not* be recognized as an outflow of resources includes:

- h. Depreciation.

15. Inflows of resources for a reporting period would be recognized for newly acquired financial resources that (a) do not result in corresponding liabilities and (b) are available for spending for that reporting period. Financial resources would be considered available for spending in the reporting period if they are (1) received in cash during the period or (2) receivable at period-end and normally are due to convert to cash in the near term. These financial resources are considered available for spending because payments to satisfy obligations for spending of the period normally are made either during the period or shortly after period-end. Examples of transactions that would be recognized as inflows of resources include:

- a. Property taxes levied for the period that are collected during the period or that normally are due within the near term
- b. Sales and corporate income taxes that are collected during the period or that normally are due within the near term
- c. Repayments from lending activities that are scheduled during the reporting period
- d. Proceeds from all borrowings, including long-term operating and capital-related debt and tax anticipation notes or revenue anticipation notes issued during the period
- e. Proceeds from sales of capital assets.

An example of a transaction that would *not* be recognized as an inflow of resources includes:

- f. Repayments from lending activities due within subsequent periods.

16. Deferred outflows of resources and deferred inflows of resources would be recognized for (a) outflows of resources that do not meet the definition of an asset and are inherently related to future spending and (b) inflows of resources that do not meet the definition of a liability and are inherently related to future spending, respectively. For example, a government may levy a tax for a period subsequent to the reporting period. If the tax is collected during the reporting period, the amount would be recognized as a deferred inflow of resources.

17. The net position element (fund balance) would represent the residual amount (or deficiency) of near-term assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the reporting period. As previously noted, net position presented in financial statements prepared using the near-term approach would not be intended to provide a comprehensive portrayal of the financial position of governmental activities because it would exclude items of a long-term nature, such as capital assets, pension and other postemployment benefit liabilities that are not classified as near term, and long-term debt. The reconciliation included in the near-term governmental funds financial statements would highlight these differences between the near-term financial resources measurement focus and the economic resources measurement focus presented in the government-wide financial statements. A more comprehensive portrayal of the financial position of governmental activities is reported in the government-wide financial statements.

### **Potential Benefits and Challenges of Using the Near-Term Approach**

18. In addition to the common characteristics of the approaches discussed in paragraphs 4–8 of this chapter, the following are potential benefits of using the near-term approach.

- a. This approach would increase the consistency and comparability of governmental fund financial statements. The term *current financial resources* has different meanings to different people. The near-term focus would report amounts available for spending.
- b. This approach would provide conceptually consistent recognition principles for governmental fund financial statements, rather than the existing collection of accounting conventions. The effects of certain transactions involving assets and liabilities that are not near term, such as inventories and long-term receivables, would be removed from the governmental fund financial statements.
- c. This approach would provide resource flows information that has some similarities to cash flow information because the *near term* is considered to be a relatively short period and is relatively close to a cash measurement focus. As a result, a statement of cash flows for governmental funds (as discussed in Chapter 3) may not be necessary with this approach.

19. In addition to the common characteristics of the approaches discussed in paragraphs 4–8 of this chapter, the following are potential challenges of using the near-term approach.

- a. Although some aspects of this approach would eliminate conceptual inconsistencies in the existing current financial resources measurement focus, this approach might introduce its own inconsistencies. For example, a required principal payment on debt (including tax anticipation notes or revenue anticipation notes) would be recognized as a liability only on the date that it is due—even if that date is one day after the period-end and payment will be made with near-term financial resources—because the payment is not considered payable until it matures. By contrast, accrued interest on that same liability, which is due and is not required to be paid until the same date, would be recognized as a liability at period-end.
- b. Because this approach would focus on amounts available for spending, the amount reported for near-term fund balance may be overstated in the view of some stakeholders as a result of certain management actions. Some believe it may provide an unrealistic sense that the government has met all of its obligations. For example, if a government were to balance its budget by issuing tax anticipation notes or revenue anticipation notes or by not making actuarial calculated annual contributions to its pension plans, these actions would result in a

*higher* near-term fund balance even though the government has incurred a new obligation or not satisfied an existing obligation.

- c. Some stakeholders believe that reporting inventory as outflows of resources either when acquired or when paid for, rather than when they have a substantive economic impact, would not be consistent with presenting information useful to assessing interperiod equity. Interperiod equity—the state in which current period inflows of resources equal current period cost of services—is associated with the objectives of financial reporting. (See Appendix C.)
- d. The potential for material inconsistency and systematic management of reported results from period to period would be greater because a significant transaction or event may occur or fail to occur in the near-term time frame as a result of the deliberate action or inaction of a government’s management.
- e. It is contemplated that a statement of cash flows would not be presented in this recognition approach (discussed in Chapter 3). However, some believe not presenting a statement of cash flows for governmental funds might omit information relevant to understanding short-term liquidity and short-term financing considerations.

## **Short-Term (Working Capital)<sup>6</sup> Approach**

### **Messages Conveyed by Short-Term Financial Statements**

20. The short-term approach would provide information that is focused on the government’s one-year fiscal period (operating cycle). The short-term approach would present financial resource inflows and outflows for the period, as well as period-end balances related to short-term (defined as one year) financial assets and short-term liabilities. Financial resources in this approach are cash, claims to cash, claims to goods or services (such as prepaid items), consumable goods (such as inventory), and equity securities of another entity. This approach would assist in (a) assessing a government’s ability to meet service needs and pay obligations in the subsequent operating cycle, (b) analyzing whether a government is falling behind or keeping pace in funding its short-term obligations, and (c) determining whether the government has available resources (beyond those needed to meet current-year obligations) to meet new or additional service needs. (See Illustrations 5, 6A, and 6B in Appendix D.)

### **Recognition Concepts for the Short-Term Approach**

21. The short-term approach for governmental fund financial statements is based on the concept of symmetry for assets and liabilities. Assets would include cash, other financial resources that are receivable at period-end and normally<sup>7</sup> due<sup>8</sup> to convert to cash within the subsequent operating cycle, and prepaid items and inventories that will be consumed in the subsequent operating cycle. Liabilities would include those that are payable at period-end and that normally are due within the subsequent operating cycle. Examples of assets that would be recognized include:

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<sup>6</sup>In early discussions, this recognition approach was referred to as the working capital recognition approach.

<sup>7</sup>Consistent with its use in Interpretation 6 and with footnote 4 related to the near-term approach, *normally* as used in this approach refers to circumstances for governments in general, not the potentially unique circumstances of a single government.

<sup>8</sup>Consistent with its use in footnote 5 related to the near-term approach, *due*, as used in this approach, refers to the date at which payment is scheduled or, if not scheduled, expected to be made.

- a. Cash and investments
- b. Accounts receivable that normally are due within the subsequent operating cycle
- c. Property taxes receivable that normally are due within the subsequent operating cycle
- d. Long-term receivables that are due within the subsequent operating cycle
- e. Prepaid items
- f. Inventory.

Examples of items that would *not* be recognized as assets include:

- g. Long-term receivables that are due beyond the subsequent operating cycle
- h. Capital assets, including intangible assets.

22. Examples of liabilities that would be recognized include:

- a. Accounts payable and accrued payroll.
- b. Accrued interest payable that normally is due within the subsequent operating cycle.
- c. Compensated absences payable that normally are due within the subsequent operating cycle.
- d. Principal amounts of long-term operating debt or long-term capital-related debt and tax anticipation notes or revenue anticipation notes that are due within the subsequent operating cycle.
- e. Net pension and other postemployment benefit liabilities that are payable and that normally are due within the subsequent operating cycle. (In circumstances in which liabilities to employees for pensions or other postemployment benefits are provided through plans administered through trusts or equivalent arrangements<sup>9</sup> [hereafter jointly referred to as trusts], the amount recognized as the liability would be the cumulative excess of the actuarially determined contribution<sup>10</sup> over amounts contributed to the postemployment benefit plan, including related interest. If the liabilities to employees are not provided through plans administered through trusts, the liability recognized would be the amount normally due within the subsequent operating cycle).
- f. Asset retirement obligations that relate to a current or past reporting period and that normally are due within the subsequent operating cycle (based on regulatory funding requirements) for future payment of the obligation.

Examples of items that would *not* be recognized as liabilities include:

- g. Portions of compensated absences liabilities not normally due within the subsequent operating cycle

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<sup>9</sup>Paragraph 4 of Statement No. 68, *Accounting and Financial Reporting for Pensions*, and paragraph 4 of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, define trusts or equivalent arrangements as those in which (1) contributions from employers and nonemployer contributing entities to the plan and earnings on those contributions are irrevocable, (2) plan assets are dedicated to providing pensions or other postemployment benefits to plan members in accordance with the benefit terms, and (3) plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

<sup>10</sup>*Actuarially determined contribution* is defined in paragraph 139 of Statement 68: “A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.” A similar definition can be found in Statement 75.

- h. Long-term operating debt or long-term capital-related debt and tax anticipation notes or revenue anticipation notes not due within the subsequent operating cycle
- i. Net pension and other postemployment benefit liabilities other than those payable and normally due within the subsequent operating cycle
- j. Asset retirement obligations that relate to a current or past reporting period and that are not normally due within the subsequent operating cycle (based on regulatory funding requirements) for future payment of the obligation.

23. Outflows of resources for a reporting period would be recognized as the underlying transaction occurs and the cash is disbursed or due within the subsequent operating cycle. As such, outflows related to the recognition of liabilities, such as interest expense, compensated absences, and postemployment benefits would be recognized. A separate section of the resource flows statement would present outflows related to long-term balances, such as changes in the portion of long-term liabilities due within the subsequent operating cycle and recognized on the short-term financial resources balance sheet. Depreciation would not be recognized as an outflow of resources because capital assets are not considered short term and are not recognized as an asset. Examples of transactions that would be recognized as outflows of resources include:

- a. Compensation outflows, including changes in recognized liabilities for postemployment benefits and compensated absences
- b. Use of goods (including inventories) and services
- c. Long-term lending activities
- d. Interest payments on borrowing to the extent that the interest has accrued and is due either in the period or within the subsequent operating cycle
- e. Principal payments related to long-term operating debt or long-term capital-related debt due within the subsequent operating cycle
- f. Capital outlays.

Examples of transactions that would *not* be recognized as outflows of resources include:

- g. Prepayments for goods and services to be received in future periods
- h. Purchases of inventories
- i. Principal payments on all borrowings, including long-term operating and capital-related debt and tax anticipation notes or revenue anticipation notes, that mature in the period
- j. Depreciation.

24. Inflows of resources for a reporting period would be recognized as the underlying transaction occurs and the cash is collected or is due within the subsequent operating cycle. Inflows related to long-term balances, such as proceeds of debt issuance, sales of capital assets, and the portion of long-term receivables due within the subsequent operating cycle and recognized on the short-term balance sheet would be included in a separate section of the resource flows statement related to long-term balances. Examples of transactions that would be recognized as inflows of resources include:

- a. Property taxes levied for the period that were collected during the period or that normally are due within the subsequent operating cycle
- b. Sales and corporate income taxes relating to the reporting period that were collected during the period or that normally are due within the subsequent operating cycle

- c. Repayments from lending activities that are due within the subsequent operating cycle
- d. Proceeds from borrowings of the current period, including operating and capital-related long-term debt and tax anticipation notes or revenue anticipation notes, that are due within a period beyond the subsequent operating cycle
- e. Proceeds from sales of capital assets
- f. Amounts related to long-term receivables due within the subsequent operating cycle.

An example of a transaction that would *not* be recognized as an inflow of resources includes:

- g. Repayments from lending activities due in a period beyond the subsequent operating cycle.

25. Deferred outflows of resources and deferred inflows of resources would be recognized for outflows of resources that do not meet the definition of an asset and are inherently related to future periods and inflows of resources that do not meet the definition of a liability and are inherently related to future periods, respectively. For example, a government may levy a tax for a period subsequent to the reporting period. If the tax is (a) collected during the current period or (b) recognized as a receivable because it normally is due within the subsequent operating cycle, the amount equal to (a) and (b) would be recognized as a deferred inflow of resources.

26. The short-term net position element (fund balance) would represent the residual amount (or deficiency) of short-term assets and deferred outflows of resources over short-term liabilities and deferred inflows of resources at the end of the reporting period. Short-term fund balance would not be intended to provide a comprehensive portrayal of the financial position of governmental activities because it would exclude some items of a long-term nature, such as long-term receivables, capital assets, and long-term debt. It generally would represent a government's financial position from a short-term operating perspective. The reconciliation included in the short-term governmental funds financial statements would highlight the differences between the short-term approach and the economic resources measurement focus presented in the government-wide financial statements. A more comprehensive portrayal of the financial position of governmental activities is reported in the government-wide financial statements.

### **Potential Benefits and Challenges of Using the Short-Term Approach**

27. In addition to the common characteristics of the approaches discussed in paragraphs 4–8 of this chapter, the following are potential benefits of using the short-term approach.

- a. This approach would provide conceptually consistent recognition principles for governmental fund financial statements, rather than the existing collection of accounting conventions. This approach would recognize all of the obligations that are payable and normally due within the subsequent operating cycle, along with the existing resources that are available in the same period to satisfy these obligations.
- b. This approach may provide a better basis for assessing interperiod equity than the current financial resources measurement focus because it would focus on a one-year operating cycle and would present information about whether the government is able to meet its obligations.
- c. The presentation of short-term assets and short-term liabilities on the short-term balance sheet, and the focus on a one-year operating cycle may aid users in their analysis of the short-term financial health of the government, as well as in their assessment of the government's budgetary cycle, which also may be a one-year cycle. The amount reported for short-term fund

balance may better reflect the results of certain budgetary actions in the view of some stakeholders. For example, if a government were to balance its budget by not contributing an amount to a postemployment benefit trust fund for the actuarially determined contribution, the short-term fund balance would decrease to reflect that this decision results in the recognition of a liability.

28. In addition to the common characteristics of the approaches discussed in paragraphs 4–8 of this chapter, the following are potential challenges to using the short-term approach.
- a. Users may be unaccustomed to the presentation of short-term flows related to items of a long-term nature on the statement of short-term resource flows. The appearance of these items may be counterintuitive to the shorter time perspective of governmental fund financial statements.
  - b. There may be additional effort and costs related to preparing and auditing balances for amounts expected to be paid within the subsequent operating cycle for nonstructured liabilities,<sup>11</sup> (such as compensated absences, claims and judgments, asset retirement obligations, and landfill closure liabilities) because estimations and assumptions would be required. For example, governments that pay benefits through a postemployment benefit plan funded through contributions would be required to calculate an actuarially determined contribution even if they determine contributions using a different method.
  - c. Users may encounter difficulties making comparisons between governments because of differing types of arrangements for funding liabilities. For example, a government that has made minimal or no actuarially determined contributions to a pension plan as the liability for pension benefits accrued would report a significant liability for pension benefits. However, a government in a similar situation that has issued pension obligation bonds and placed the proceeds in the pension trust would not report a significant liability for pension benefits but, instead, would report a liability for the portion of its pension obligation debt due within the subsequent period. Similarly, a government operating its pension plan on a pay-as-you-go basis would recognize what it expects to pay in the subsequent operating cycle, which also may be an amount that is significantly different from the other two scenarios. In all scenarios, the three governments may have a similar net position associated with pension-related liabilities on the government-wide statement of net position, yet would report substantially different amounts of liabilities on the governmental fund financial statements.
  - d. Some may have difficulty understanding the differences in balances for some items in the current section of the government-wide statement of net position, presented in a classified format, and the balances presented on the short-term balance sheet. These differences would be caused by the recognition of amounts expected to be paid on nonstructured liabilities in the short-term approach that differ from amounts recognized on the accrual basis of accounting on the government-wide statements. Examples of these types of items are postemployment benefits, landfill closure liabilities, and asset retirement obligations.
  - e. Because the short-term approach is further from a cash measurement focus than the existing current financial resources measurement focus, governmental fund statements of cash flows would be presented in this recognition approach. (See Chapter 3.) Preparation of this additional financial statement would add to preparation and audit costs.

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<sup>11</sup>Nonstructured liabilities are those that do not have repayment terms defined by a legally binding agreement with the creditor.

- f. There may be a conceptual inconsistency with recognizing certain assets with a physical form, such as inventory, but not others, such as capital assets. The short-term financial resources balance sheet, with its short-term focus, would recognize inventory because it generally is considered to be an asset that will be consumed within the subsequent operating cycle. However, this distinction may not be clear in some cases, and some stakeholders may consider other types of physical assets also to have utility in the short term. Alternatively, inventories in some situations could be expected to be consumed in time frames longer than the subsequent operating cycle.

## **Long-Term (Total Financial Resources)<sup>12</sup> Approach**

### **Messages Conveyed by Long-Term Financial Statements**

29. The long-term approach would recognize the effects on financial resources of transactions or events when they take place, regardless of when cash is received or paid. Financial resources in this approach are cash, claims to cash, claims to goods or services (such as prepaid items), consumable goods (such as inventory), and equity securities of another entity. This approach would not recognize capital assets and capital-related debt. The long-term approach would show users information related to financial assets and liabilities from financial resources, which would help users assess the government's ability to meet service needs and pay obligations that have been incurred related to noncapital activities. Information on a shorter time perspective would be provided by the long-term approach through the presentation of the balance sheet in a classified format that shows current (defined as one year) assets and liabilities separately from noncurrent assets and liabilities. (See Illustrations 7, 8A, and 8B in Appendix D.)

### **Recognition Concepts for the Long-Term Approach**

30. The long-term approach for governmental fund financial statements is based on a concept of symmetry for assets and liabilities. It would report all assets and liabilities except capital assets and capital-related debt. Capital-related debt would be the debt that is included in the calculation of the net investment in capital assets component of net position. Paragraph 9 of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, defines this debt as "outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement" of the government's capital assets. Examples of assets that would be recognized include:

- a. Cash and investments
- b. Accounts receivable
- c. Property taxes receivable
- d. Long-term receivables
- e. Prepaid items
- f. Inventory.

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<sup>12</sup>In early discussions, this measurement approach was referred to as the total financial resources measurement approach.

An example of an item that would *not* be recognized as an asset includes:

g. Capital assets, including intangible assets.

31. Examples of liabilities that would be recognized include:

a. Accounts payable and accrued payroll

b. Accrued interest payable

c. Compensated absences

d. Principal amounts of long-term operating debt and tax anticipation notes or revenue anticipation notes

e. Pension and other postemployment benefit liabilities (measured in accordance with the requirements in Statement No. 68, *Accounting and Financial Reporting for Pensions*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*)

f. Asset retirement obligations.

An example of a liability that would *not* be recognized includes:

g. Principal amounts of long-term capital-related debt.

32. Outflows of resources for a reporting period under the long-term approach would be recognized as the underlying transaction occurs regardless of when cash is disbursed. As such, outflows related to the accrual of liabilities, such as interest expense, compensated absences, and postemployment benefits would be recognized. A separate section of the resource flows statement would present outflows related to capital assets and long-term capital-related debt. Depreciation would not be recognized as an outflow of resources because capital assets are not financial resources and, therefore, are not recognized as assets. Examples of transactions that would be recognized as outflows of resources include:

a. Compensation outflows, including changes in liabilities for postemployment benefits and compensated absences

b. Use of goods (including inventories) and services

c. Interest

d. Principal payments for capital-related long-term debt

e. Capital outlays.

Examples of transactions that would *not* be recognized as outflows of resources include:

f. Prepayments for goods and services to be received in future periods

g. Purchases of inventories

h. Lending activities

i. Principal payments on operating long-term debt and tax anticipation notes or revenue anticipation notes

j. Depreciation.

33. Inflows of resources for a reporting period under the long-term approach also would be recognized as the underlying transaction occurs regardless of when cash is received. A separate section of the resource flows statement would present inflows related to sales of capital assets and proceeds from the issuance of long-term capital-related debt. Examples of transactions that would be recognized as inflows of resources include:

- a. Property taxes levied for the period
- b. Sales and corporate income taxes for which the underlying transaction has occurred
- c. Proceeds from current-period borrowings for capital-related debt
- d. Proceeds from sales of capital assets.

Examples of transactions that would *not* be recognized as inflows of resources include:

- e. Collections of principal payments from lending activities
- f. Proceeds from current-period borrowings of long-term operating debt and tax anticipation notes or revenue anticipation notes.

34. Deferred outflows of resources and deferred inflows of resources would be recognized for (a) outflows of resources that do not meet the definition of an asset and that are inherently related to future periods and (b) inflows of resources that do not meet the definition of a liability and that are inherently related to future periods, respectively. For example, a government may levy a tax for a period subsequent to the reporting period. If the tax is (1) collected in the current period or (2) recognized as a receivable, the amount equal to (1) and (2) would be recognized as a deferred inflow of resources. Deferred inflows of resources and deferred outflows of resources related to pensions and other postemployment benefits also would be reported under the long-term approach. These deferrals arise as a result of certain changes in factors that relate to the measurement of the net postemployment liabilities.

35. The net position element (fund balance) would represent the residual amount (or deficiency) of assets and deferred outflows of resources over liabilities and deferred inflows of resources at the end of the reporting period. The net position presented in financial statements prepared using the long-term approach is not intended to provide a comprehensive portrayal of the financial position of governmental activities because it would exclude capital assets and capital-related debt. The reconciliation included in the long-term governmental funds financial statements would highlight the differences between the long-term approach and economic resources measurement focus presented in the government-wide financial statements. A comprehensive portrayal of the financial position of governmental activities is reported in the government-wide financial statements.

### **Potential Benefits and Challenges of Using the Long-Term Approach**

36. In addition to the common characteristics of the approaches discussed in paragraphs 4–8 of this chapter, the following are potential benefits of using the long-term approach.

- a. This approach would provide conceptually consistent recognition principles for governmental fund financial statements, rather than the existing collection of accounting conventions. All transactions related to financial resources would be recognized.

- b. This approach may provide a better basis for assessing interperiod equity than the current financial resources measurement focus because it would report on all financial resources and would present information about whether the government is able to meet its obligations.
- c. The amount reported for long-term fund balance may better reflect the results of certain budgetary actions in the view of some stakeholders. For example, if a government were to balance its budget by issuing a tax anticipation note or a revenue anticipation note or by not funding its pension plans, these actions would not result in a higher fund balance.
- d. This approach would provide information related to non-capital-related liabilities of the government that are expected to be liquidated from governmental funds.
- e. This approach may simplify the financial reporting model by having a measurement approach for the governmental funds that has few differences from the measurement approach for the government-wide financial statements.

37. In addition to the common characteristics of the approaches discussed in paragraphs 4–8 of this chapter, the following are potential challenges to using the long-term approach.

- a. Although some aspects of this approach would eliminate conceptual inconsistencies in the existing current financial resources measurement focus, this approach may introduce an additional conceptual inconsistency by treating capital assets and capital-related debt differently from other assets and liabilities.
- b. Using this recognition approach, governmental funds would no longer present a shorter time perspective of the financial position and resource flows unless the balance sheet is presented using a classified format, which is not required in the existing government-wide statement of net position prepared using the economic resources measurement focus.
- c. Because the long-term approach is further from a cash measurement focus than the existing current financial resources measurement focus, governmental fund statements of cash flows would be presented in this recognition approach. (See Chapter 3.) Preparation of additional financial statements would add to preparation and audit costs.

## **Definition of Financial Resources**

38. Views differ on what is considered a financial resource. Some view financial resources to be items that can be or are expected to be converted to cash or are consumable in lieu of financial resources. Others view financial resources to be all resources that are not capital resources.

39. The differing views on the definition of financial resources can be illustrated by considering the nature of prepaid items and inventory. Some may consider prepaid items to be financial resources because, in many cases, the prepaid amount is refundable, thereby having the capability of producing cash. Some may consider prepaid items to be financial resources because they are consumable in lieu of financial resources—meaning that because of the existence of the prepaid item, the use of financial resources in a future period can be avoided. Others may consider prepaid items to not be financial resources because, in many cases, there is no expectation that they will produce cash in a future period.

40. Views related to inventory and its relationship to financial resources vary as well. Some consider inventory to be a tangible asset, similar to most capital assets, and, therefore, not a financial asset. Others consider inventory to be a financial resource because inventories are consumable in lieu of financial resources—meaning that because inventory is on hand, the use of

financial resources in a future period can be avoided. Although most inventory in governmental funds is expected to be consumed in a future period, some inventory might be held for sale, such as merchandise of a parks department special revenue fund. Inventory expected to be sold may be viewed differently from inventory expected to be consumed. Further, financial instruments associated with inventory, such as forward contracts for fuel, may complicate the analysis.

### Questions

2.1. Do you believe that governmental fund financial statements should continue to present information that reflects a shorter time perspective than the information presented in the government-wide financial statements and that focuses on financial, rather than economic, resources? Why?

2.2. Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government's budgetary information? Why?

2.3. Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability<sup>13</sup> of the government? Why do you consider that information most relevant?

2.4. Transactions related to tax anticipation notes or revenue anticipation notes are presented differently under the three recognition approaches. In the near-term approach, borrowings on and repayments of these notes would be reported as inflows of resources and outflows of resources on the statement of resource flows and in the reconciliation to the government-wide statement of net position. In the short-term and long-term approaches, outstanding balances of these notes would be reported as liabilities on the balance sheet, and borrowings on and repayments of these notes would be reported in the statement of cash flows. (See the discussion in Chapter 3.) Which approach to the reporting of these notes provides the most valuable information? Why?

2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. What definition of financial resources provides the most valuable information? Why? Do you consider prepaid items to be financial resources? Why? Do you consider inventory to be financial resources? Why?

2.6. For the recognition approach that you believe provides the most valuable information, how would you change that recognition approach to provide information that is more valuable? How would those changes make the information more valuable?

2.7. Paragraph 6 of this chapter discusses a same-page reconciliation to government-wide information and the use of specific terminology to more clearly communicate that the information in governmental fund financial statements is of a shorter time perspective than information in the government-wide financial statements and focuses on financial, rather than economic, resources. Are these changes effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements? How could those differences be communicated more effectively?

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<sup>13</sup>Fiscal accountability reflects a shorter time perspective than that conveyed by the information in the government-wide financial statements and focuses on financial, rather than economic, resources.

## **CHAPTER 3—OTHER GOVERNMENTAL FUND FINANCIAL STATEMENT ISSUES**

### **Format of the Resource Flows Statement**

1. Two formats are being considered for the governmental funds resource flows statement: (a) the existing statement of revenues, expenditures, and changes in fund balances format and (b) the current and long-term activity format. The existing format of the governmental funds resource flows statement generally presents inflows and outflows of resources considered revenues and expenditures separately from those flows that are considered other financing sources and uses. Those other financing sources and uses include the following:

- a. Resources received from the issuance of long-term debt
- b. Resources paid to bondholders or placed in escrow in connection with debt refundings
- c. Resources received from the sale of capital assets
- d. Transfers of resources into and out of the governmental funds.

In addition, in the existing format of the governmental funds resource flows statement, extraordinary and special items are presented separately. Extraordinary items are those that are both unusual in nature and infrequent in occurrence; special items are those within the control of management and are either unusual in nature or infrequent in occurrence. Illustrations of the existing format for all three recognition approaches in Chapter 2 are presented in Appendix D as Illustrations 4A, 6A, and 8A.

2. The potential benefits of the existing format of the governmental funds resource flows statement include:

- a. Consistency with the prior presentation of flows of resources in governmental funds
- b. Consistency with the budgetary presentations of some governments.

3. A potential challenge of the existing format is a lack of consistency in the resource flows that are reported as other financing sources and uses. For example, the resources received from the issuance of long-term debt are reported as other financing sources, whereas payments of principal on that debt are reported as expenditures rather than as other financing uses. Similarly, resources received from the disposal of capital assets are reported as other financing sources, whereas the original purchases of the capital assets are reported as expenditures rather than as other financing uses.

4. The current and long-term activity format of the governmental funds resource flows statement would report inflows and outflows of resources related to the purchase and disposal of capital assets and the payment and issuance of long-term debt separately from other current-period activities of a governmental fund. Outflows of resources related to the purchase of capital assets would be those amounts that are reported as capital assets in the government-wide financial statements. The resource flows presented in the long-term activities section would represent inflows of resources or outflows of resources that occurred during the period and that correspond to the long-term assets or liabilities that are not recognized in the governmental fund balance sheet. Similarly, transfers would be presented as either current-period activities or long-term activities

depending on their purpose. As with the existing format, items that meet the definition of extraordinary or special items would be presented separately. Illustrations of the current and long-term activity format for all three recognition approaches in Chapter 2 are included in Appendix D as Illustrations 4B, 6B, and 8B.

5. A potential benefit of the current and long-term activity format of the governmental funds resource flows statement is that it consistently presents both inflows and outflows of resources associated with long-term assets and liabilities separately from flows of resources associated with current assets and liabilities.
6. The potential challenges of the current and long-term activity format include:
  - a. Some capital asset and debt transactions contain elements of both current and long-term uses. The lack of allocation of some portion of flows of resources to the current activities may be perceived by some stakeholders as incomplete information.
  - b. The use of the terms *current* and *long-term* in this method may not be consistent with the time frames of recognition of current assets and current liabilities in a classified governmental fund balance sheet and in the classified statement of net position that is required for proprietary funds. In that instance, current assets and current liabilities refer to assets and liabilities that will be converted to cash or liquidated within one year.
  - c. With the exception of transfers, the information provided by this presentation format would be discernable from the other presentation formats.
  - d. The objective of a consistent separation of resource flows between current and long-term activities may not be fully achieved because inflows of resources associated with debt service, such as taxes levied specifically for the repayment of debt, would be reported as current activities.

## Statement of Cash Flows

7. For two of the recognition approaches introduced in Chapter 2—the short-term approach and the long-term approach—the governmental fund financial statements would include a statement of cash flows. The short-term approach would recognize assets and liabilities with a maturity and expected payment as far as one operating cycle into the future, and the long-term approach recognizes all assets and liabilities regardless of maturity or expected payment date (except for capital assets and related long-term debt). As such, the amounts reported in the resource flows statement of these two recognition approaches may be substantially different from the cash flows of the reporting period. The near-term approach, however, uses a shorter time frame for recognition, which likely would result in a resource flows statement that would not differ substantially from cash flows, thereby diminishing the potential usefulness of a statement of cash flows.

8. The purpose of a statement of cash flows is to identify cash inflows and cash outflows, emphasizing that the inflows of resources and outflows of resources presented in the statement of resource flows do not necessarily equate to cash flows. A statement of cash flows for governmental funds may be useful for (a) assessing liquidity and solvency, (b) identifying cash flow issues, (c) providing additional information about the issuance of debt and debt service payments, (d) assessing the financial strength of a government, and (e) facilitating a trend analysis.

9. The illustration of the governmental fund statement of cash flows included as Illustration 9 in Appendix D is presented using the direct method and the classifications of cash flows described in Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended. Those classifications are operating activities, noncapital financing activities, capital and related financing activities, and investing activities. A reconciliation between the information in the statement of cash flows and the resource flows statement is not included because there is no direct correlation between the classification for cash flows and the subtotals reported in a resource flows statement.

10. The pre-agenda research explored stakeholder views about a government-wide statement of cash flows. The results of the research indicated that cash flow information at an aggregated level may be less useful than cash flow information disaggregated by fund. Cash flow information for proprietary funds already is a component of the financial reporting model. Cash flow information of the governmental funds is not required.

### **Questions**

3.1. Which format for the governmental funds resource flows statement—existing format or current and long-term activity format—provides the most valuable information about governmental funds? Why do you consider the information to be more valuable?

3.2. Should a statement of cash flows be required for governmental funds? Why?

3.3. What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?

3.4. Are the four classifications for the statement of cash flows from Statement 9 the most appropriate for governmental funds? If not, what classifications would be most appropriate?

## APPENDIX A: BACKGROUND INFORMATION

A1. Issued in June 1999, Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, was the culmination of 15 years of research, deliberation, and due process. In Statement 34, the GASB established the present blueprint for state and local government financial reporting—the format and measurement focus of the basic financial statements, certain related notes to the financial statements, and required supplementary information, including management’s discussion and analysis (MD&A).

A2. Among its many features, Statement 34 introduced government-wide financial statements containing economic resources measurement focus information—which notably included the reporting of infrastructure, other capital assets, and long-term liabilities—for governmental activities previously reported only on a current financial resources measurement focus 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 required budgetary comparison schedules, 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.

A3. Statement 34 was first effective for periods beginning after June 15, 2001. Most provisions of the Statement became effective in three phases, beginning with the largest governments. Up to an additional 4 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. All requirements were effective for all governments for periods beginning after June 15, 2006.

A4. The financial reporting model has a pervasive influence over the effectiveness of financial reporting by state and local governments and the ability to achieve the objectives of financial reporting. As a result, the GASB decided that it was important, as part of its commitment to maintaining the effectiveness of its standards, to reexamine the existing financial reporting model now that it has been in place for a sufficient length of time.

A5. An additional reason for undertaking this project is to continue the development of recognition concepts for information presented in governmental funds. The Board’s conceptual framework project on recognition was put on hold pending reexamination of the financial reporting model. Feedback on the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches*, issued in June 2011 included recommendations that recognition concepts for governmental funds be developed in conjunction with a reexamination of the financial reporting model.

A6. The Board added the reexamination of the existing financial reporting model as a pre-agenda research activity in August 2013. The initial phase of the pre-agenda research was exploratory in nature and established the specific objectives of the more extensive research activities.

During 2013, the staff conducted three related research efforts:

- A review of the relevant literature related to Statement 34 and related pronouncements (the financial reporting model)
- Archival research with the financial reports of 465 governments of various types in order to collect information about how governments currently comply with the requirements related to the financial reporting model
- A series of 11 research roundtables conducted with a wide variety of types of preparers, auditors, and users of financial statements, which were used to identify key issues related to the financial reporting model in practice.

A7. Following the analysis of the results of the initial phase of research, the staff conducted broad-based surveys of preparers, auditors, and users. A separate survey also was conducted with preparers whose governments implemented Statement 34 using the modified approach to report infrastructure assets. The intent of the surveys was to obtain feedback from a broader group of constituents about the key issues identified in the preceding research efforts.

A8. The final phase of the research involved in-depth interviews with preparers, auditors, and users to further investigate the issues raised in the earlier stages of the research and to seek additional explanation of major and common concerns.

A9. The pre-agenda research showed that most of the components of the financial reporting model are effective; however, a number of areas in which improvements could be made were identified. After considering the results of the pre-agenda research, the project was added to the Board's current technical agenda in September 2015 to consider these potential improvements. Those potential areas for improvement identified are described in paragraphs 3–5 of Chapter 1 of this Invitation to Comment.

## **APPENDIX B: SUMMARY OF CONSIDERATIONS DURING THE DEVELOPMENT OF THE INVITATION TO COMMENT**

### **Principles Underlying the Financial Reporting Model**

B1. During the development of this Invitation to Comment, the general principles underlying the financial reporting model that were discussed in Part 1 of the Basis for Conclusions of Statement 34 were reaffirmed. The objectives of financial reporting established in Concepts Statement No. 1, *Objectives of Financial Reporting*, are the foundation of the requirements in the financial reporting model, including the focus on accountability and providing useful information that meets a government's obligation to be accountable. The three primary user groups continue to be the citizenry, legislative and oversight bodies, and investors and creditors. General purpose external financial reports of governments meet only a subset of all information needs of all users. However, the principal needs of a variety of users should be addressed even if this means including information that not all users need or that some may not fully understand, or measuring and displaying certain information in more than one way. The information needs of the primary user groups are considered to be equally important.

B2. The pre-agenda research effort, which engaged all types of GASB stakeholders, supports the objective of making financial reporting more useful. Further, the potential improvements to the components of the financial reporting model introduced in this Invitation to Comment as well as the potential improvements that will be considered in future due process documents result from the feedback received from users, and other types of stakeholders, on how financial reporting can be made more useful.

B3. The GASB continues to acknowledge that sometimes the most important needs of different users, or even those of the same users, conflict. Some decisions focus on resource allocation and compliance from a shorter term perspective. Those decisions benefit primarily from shorter term financial information, including a government's short-term financial position and liquidity, current-year resource outflows compared with current-year resource inflows, compliance with budgetary and other legal limitations on the sources and uses of financial resources, and amounts available for appropriation. Financial statements that include the long-term effects of current-period transactions may obscure some of the information needed for shorter term perspective decisions.

B4. On the other hand, some users have an equal or greater interest in information with a longer term outlook. One of the reasons that they seek financial information is to help them predict the effect that current-period legislative and management decisions may have on the demand for taxes and other resources needed to maintain service levels and meet obligations. Their interest is not only focused on the next fiscal year, but several years into the future. Financial statements designed to focus on current financial resource flows and balances and compliance with legal requirements do not adequately meet those information needs. As a result, in Concepts Statement 1, the Board acknowledged that users' needs are diverse and developed a broad set of financial reporting objectives for meeting them.

## **Development of the Three Recognition Approaches**

B5. The three recognition approaches presented in this Invitation to Comment were developed to address concerns related to the existing recognition approach for governmental fund financial statements (discussed in paragraphs 6–11 of Chapter 1). The near-term approach was first introduced in the June 2011 Preliminary Views and received some support both in the feedback to the Preliminary Views and in the pre-agenda research. The short-term approach was developed to address what some perceive as flaws in the near-term approach. Some believe that the fund balance presented in the near-term approach is overstated because it does not reflect, for example, liabilities for tax anticipation notes or revenue anticipation notes that are due within the next operating cycle and liabilities for postemployment benefits that should have been paid or otherwise funded. The long-term approach was developed to address what some perceive as flaws in the short-term approach. Some believe that all financial assets and non-capital-related liabilities (including, for example, the entire balance of postemployment benefit liabilities) should be reported. Some believe that limiting the assets and liabilities to short-term measurements, such as the postemployment benefit liabilities reported in the short-term approach would be misleading and would produce inconsistent results.

## **Alternatives Considered and Rejected**

### **Presentation as Required Supplementary Information**

B6. One alternative for addressing the issues with governmental fund financial statements identified through the research included presenting the statements as required supplementary information. Paragraph 29 of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, provides the hierarchy for selecting communication methods as follows:

The selection of an appropriate communication method to convey information to users of general purpose external financial reports enhances the consistency, comparability, and understandability of information in those general purpose external financial reports. The communication method to be used to convey a particular item of information should be determined based on the following order:

- a. Recognition in basic financial statements
- b. Disclosure in notes to basic financial statements
- c. Presentation as required supplementary information
- d. Presentation as supplementary information.

B7. Concepts Statement 3 also states that a financial statement should be presented to display financial position at a moment in time or inflows and outflows of resources from transactions or other events during a period. Paragraphs 33 and 34 discuss the criteria for reporting information items in a financial statement:

Items recognized in a financial statement are intended to provide reliable representations of the effects of transactions and other events. The term *recognition* means recording or incorporating an item into a financial statement as an asset,

liability, revenue, expense, expenditure, or other element of financial statements. Recognition comprises both initial recognition and recognition of subsequent changes in or removal of previously recognized items. Recognized items are both described in words and measured in dollars. Recognized items are displayed in financial statements either individually or aggregated with similar items.

Items that are elements of financial statements and are measurable with sufficient reliability are recognized in financial statements. Disclosure in the notes to financial statements or presentation as supporting information is not an adequate substitute for recognition in the financial statements. Information disclosed in the notes to financial statements may provide more details about amounts recognized in the financial statements.

B8. Additionally, paragraphs 42–45 of Concepts Statement 3 discuss when to present information as required supplementary information:

Required supplementary information (RSI) is supporting information that the GASB has concluded is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. RSI is required to accompany the basic financial statements and notes to basic financial statements in a government's general purpose external financial report.

RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains.

RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements.

Items of information that meet the definition of and criteria for RSI are presented in that manner. Information presented in RSI is distinguished from supplementary information because the RSI is *essential* for placing basic financial statements and notes to basic financial statements in a context and is required to be presented with basic financial statements and notes.

B9. The GASB determined that governmental fund financial information should continue to be communicated in the basic financial statements because (a) the fund statements meet the definition of a financial statement, (b) this information presents financial position and inflows and outflows of resources, (c) this information can be measured with sufficient reliability, and (d) presenting this information as required supplementary information is not an adequate substitute for recognition in the financial statements.

B10. Most users of financial statements who participated in the interview phase of the pre-agenda research indicated a preference for the same level of auditor assurance on information presented in governmental fund financial statements as is provided on the information presented in the basic

financial statements. The level of auditor association with required supplementary information is less than that provided on the basic financial statements, and as a result, those users do not consider it to be sufficient because of the reliance they place on governmental fund information for accountability and decision making.

### **Economic Resources Measurement Focus**

B11. Another alternative for addressing the issues with governmental fund financial statements identified through the pre-agenda research was to present the governmental fund financial statements using the economic resources measurement focus. The traditional focus of governmental fund financial statements on fiscal accountability continues to be valuable according to the pre-agenda research. This includes reporting by major fund as well as developing a more conceptually consistent measurement focus and basis of accounting that meets the objective of demonstrating fiscal accountability. The operational accountability information provided by the economic resources measurement focus was considered but was determined to be inconsistent with governmental fund reporting. In order to demonstrate operational accountability for governmental activities, at a minimum, financial statements should be presented by major activities. The fact that each governmental fund generally reports only a portion of the governmental activities is inconsistent with this perspective. In addition, the evaluation of economic transactions, rather than shorter term inflows and outflows, is key to evaluating operational accountability. Further, the government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, which is consistent with the objective of demonstrating operational accountability.

B12. Another concern with application of the economic resources measurement focus is the effect of fund structure and related linkage to budgetary reporting. Reporting capital assets and long-term liabilities in governmental funds, two significant changes to current reporting in governmental fund financial statements, poses challenges. Reporting those items in the fund that is used to acquire a capital asset or make debt service payments on long-term liabilities results in a presentation much like the reporting of the general fixed asset and general long-term debt account groups in the reporting model prior to Statement 34. That presentation does not result in activities accounted for in the general and special revenue funds being reported on an economic resources measurement focus. If those items are reported as part of the functions or activities that use those capital assets or generate the resources used for debt service, the existing fund structure would be substantially changed, such that linkage to budgetary reporting generally would be lost. Neither approach is consistent with the objective of improving the financial reporting model to meet or more fully meet as many of the objectives of financial reporting as possible.

## APPENDIX C: APPLICABILITY OF THE CONCEPTS STATEMENT 1 OBJECTIVES TO COMPONENTS OF THE FINANCIAL REPORTING MODEL

This table associates the objectives of financial reporting discussed in Concepts Statement No. 1, *Objectives of Financial Reporting*, with the existing components and the potential components of the financial reporting model.

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
<i>77. Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.</i>	YES. Operational accountability.	YES. Fiscal Accountability.	YES. Fiscal accountability.	YES. Some aspects of fiscal and operational accountability.	YES. Some aspects of fiscal and operational accountability.

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
a. <i>Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues were not only sufficient to pay for current-year services, but also increased accumulated resources.</i>	YES. Operating results objective. Implies government-wide focus (programs and services across funds) and measurement of economic resource flows/accrual basis (“resources” not restricted to financial resources; references to shifting payment burden and increasing resources). Government-wide financial statements also provide information that can be used in assessing interperiod equity.	NO. Fund-based information about current financial resource flows and budgetary/legal compliance contributes little to assessments of either the governmental entity’s operating results or interperiod equity.	PARTIAL. Fund-based information about near-term flows and budgetary/legal compliance would contribute some information useful to assessment of the governmental entity’s operating results and interperiod equity.	PARTIAL. In this approach, the resource flows statement would inform the user about certain inflows and outflows for the period; it would not, however, present a complete cost of services because assets and liabilities that do not provide or require short-term financial resources would not be reported. This approach provides some information to help the user assess interperiod equity.	PARTIAL. In this approach, the resource flows statement would inform the user about certain inflows and outflows for the period; it would not, however, present a complete cost of services because capital assets and capital-related debt would not be reported. This approach would provide some information to help the user assess interperiod equity.

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
b. <i>Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements. [For some items, it may be sufficient to demonstrate compliance by identifying items or instances of noncompliance.]</i>	NO. Budgetary compliance and most legal compliance information is associated with specific funds rather than the government as a whole.	YES. Demonstration of budgetary/legal compliance is inherent to fund structure and is the foundation of this perspective.	YES. This approach would assist a government in fulfilling its duty to be publicly accountable and enable users to assess that accountability by reporting on whether resources were obtained and used in accordance with the government's legally adopted budget. This is because, in many cases, the measurement focus used in a government's adopted budget is similar to what would be used in this approach.	PARTIAL. This approach would retain the existing fund structure and may provide some basis for assessing whether resources were obtained and used in accordance with the government's legally adopted budget. In some cases, the use of a short-term approach may align with a government's budget, but in other cases it would not.	PARTIAL. This approach would retain the existing fund structure and may provide some basis for assessing whether resources were obtained and used in accordance with the government's legally adopted budget. In some cases, the use of a long-term approach may align with a government's budget, but in most cases it would not.

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
<p>c. <i>Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments [SEA] of the governmental entity.</i> This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within an entity and comparisons among similar entities. Information about physical resources (as discussed in paragraph 79b) should also assist in determining cost of services.</p>	<p>YES. SEA objective. Contributes to users' assessments of economy and efficiency by providing information about the cost of programs and other services. Although SEA reporting also requires other information, the government-wide financial statements provide a link between financial statements and SEA reporting.</p>	<p>NO. Measuring current financial resource flows contributes little to SEA reporting. Also, assessments of SEA require information about programs and activities, which frequently cross funds.</p>	<p>PARTIAL. Measuring near-term flows contributes some cost information for SEA reporting. Also, assessments of SEA require information about programs and activities, which frequently cross funds. This approach may provide some information to help form a basis for voting or funding decisions.</p>	<p>PARTIAL. Measuring short-term flows contributes some cost information for SEA reporting. Also, assessments of SEA require information about programs and activities, which frequently cross funds. This approach may provide some information to help form a basis for voting or funding decisions.</p>	<p>PARTIAL. Measuring long-term flows contributes some cost information for SEA reporting. Also, assessments of SEA require information about programs and activities, which frequently cross funds. This approach may provide some information to help form a basis for voting or funding decisions.</p>

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
78. <i>Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.</i>	YES. Refers to the reporting government. Reporting operating results implies a comparison of economic inflows and outflows related to the government's program- and service- providing objectives.	NO. This approach focuses on inflows and outflows of fund financial resources and, therefore, is not intended to provide complete information on the operating results.	PARTIAL. This approach focuses on inflows and outflows of fund financial resources and, therefore, is not intended to provide complete information on the operating results. However, the information may assist users in evaluating operating results.	PARTIAL. This approach assists users in evaluating the operating results of the government for the year because it reports short-term financial resources, but it does not report a complete cost of services. Assets and liabilities that do not provide or require short-term financial resources are not included.	PARTIAL. This approach assists users in evaluating the operating results of the government for the year because it reports long-term financial resources, but it does not report a complete cost of services. Capital assets and capital-related debt are not included.
a. <i>Financial reporting should provide information about sources and uses of financial resources. Financial reporting should account for all outflows by function and purpose, all inflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.</i>	NO, except for reporting material nonrecurring transactions. The government-wide financial statements are concerned with economic transactions and other events, not financial resource inflows and outflows.	YES. This approach focuses on information about the sources and uses of current financial resources and comparisons of inflows and outflows. It also requires reporting of material nonrecurring transactions.	YES. This approach provides information about the sources and uses of financial resources from a near-term perspective.	YES. This approach provides information about the sources and uses of financial resources from a short-term perspective.	YES. This approach provides information about the sources and uses of financial resources from a long-term perspective.

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
b. <i>Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.</i>	PARTIAL. YES for “financed its activities.” The objective refers to the governmental entity. Information is provided about the net cost of governmental and business-type activities by function. NO for “met its cash requirements.” Information about how the government met its cash requirements is not provided in the government-wide financial statements.	PARTIAL. NO for “financed its activities” (activities cross funds). YES for “met its cash requirements.” Although a statement of cash flows is not required, cash or near-cash budgetary information is provided.	PARTIAL. NO for “financed its activities” (activities cross funds). YES for “met its cash requirements” because the near-term approach is similar to the cash basis.	PARTIAL. NO for “financed its activities” (activities cross funds). YES for “met its cash requirements” if a governmental fund statement of cash flows also is presented.	PARTIAL. NO for “financed its activities” (activities cross funds). YES for “met its cash requirements” if a governmental fund statement of cash flows also is presented.
c. <i>Financial reporting should provide information necessary to determine whether the entity’s financial position improved or deteriorated as a result of the year’s operations.</i>	YES. Refers to the operations of the reporting government. “Financial position” implies the inclusion of all measurable economic resources, capital and financial, consistent with the interpretation of “operations” from general objective 78.	NO. This approach provides information primarily on the balances of current financial resources of major funds.	PARTIAL. This approach would provide limited information about the government’s financial position and changes in financial position.	PARTIAL. This approach does not provide the complete picture, but this approach provides additional insights into whether the financial position of the government improved or deteriorated as a result of the current-year operations.	PARTIAL. This approach does not provide the complete picture, but this approach provides additional insights into whether the financial position of the government improved or deteriorated as a result of the current-year operations.

<b><u>Concepts Statement 1 Objective</u></b>	<b><u>Existing Financial Statements</u></b>		<b><u>Potential Governmental Fund Financial Statements</u></b>		
	<b><u>Economic Resources Approach</u></b>	<b><u>Current Financial Resources Approach</u></b>	<b><u>Near-Term Approach</u></b>	<b><u>Short-Term Approach</u></b>	<b><u>Long-Term Approach</u></b>
<i>79. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.</i>	YES. Financial condition is a government-wide concept. The reported net cost of programs, operating results, and financial position can contribute assessments of financial condition. However, financial condition is a complex, long-term concept that includes information reported outside as well as within the basic financial statements.	PARTIAL. Financial condition primarily is a government-wide, economic-based concept.	PARTIAL. Financial condition primarily is a government-wide, economic-based concept.	PARTIAL. Short-term financial resources are not a government-wide economic-based concept. This approach, because it would include all liabilities at period-end that will come due within the subsequent operating cycle, would provide information about the ability to meet obligations as they come due. However, because cost of services information is not complete, it would not provide information for assessing the level of services that can be provided.	PARTIAL. Long-term financial resources are not a government-wide, economic-based concept. This approach, because it would include all liabilities at period-end (with the exception of capital-related liabilities), would provide information about the ability to meet obligations as they come due. However, because cost of services information is not complete, it would not provide information for assessing the level of services that can be provided.

<b>Concepts Statement 1 Objective</b>	<b><u>Existing Financial Statements</u></b>		<b><u>Potential Governmental Fund Financial Statements</u></b>		
	<b><u>Economic Resources Approach</u></b>	<b><u>Current Financial Resources Approach</u></b>	<b><u>Near-Term Approach</u></b>	<b><u>Short-Term Approach</u></b>	<b><u>Long-Term Approach</u></b>
a. <i>Financial reporting should provide information about the financial position and condition of a governmental entity. Financial reporting should provide information about resources and obligations, both actual and contingent, current and noncurrent. The major financial resources of most governmental entities are derived from the ability to tax and issue debt. As a result, financial reporting should provide information about tax sources, tax limitations, tax burdens, and debt limitations.</i>	YES. (See objective 78c and general objective 79 above.)	PARTIAL. (See objective 78c and general objective 79 above.)	PARTIAL. (See objective 78c and general objective 79 above.)	PARTIAL. (See objective 78c and general objective 79 above.)	PARTIAL. (See objective 78c and general objective 79 above.)

<b>Concepts Statement 1 Objective</b>	<b>Existing Financial Statements</b>		<b>Potential Governmental Fund Financial Statements</b>		
	<b>Economic Resources Approach</b>	<b>Current Financial Resources Approach</b>	<b>Near-Term Approach</b>	<b>Short-Term Approach</b>	<b>Long-Term Approach</b>
b. <i>Financial reporting should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources.</i> This information should be presented to help users assess long- and short-term capital needs.	YES, through the reporting of capital assets. Assessments of service potential may require supplemental information about deferred maintenance, condition of and cost to repair capital assets, and so forth. (See also objective 78c.)	NO. This perspective focuses on inflows and outflows of fund financial resources.	NO. This approach would focus on inflows and outflows of fund financial resources in the current period and within the near-term period following the current period. No long-term assets would be reported under this approach.	NO. This approach would focus on inflows and outflows of fund financial resources in the operating cycle. No capital assets would be reported under this approach.	NO. This approach would focus on inflows and outflows of fund financial resources. No capital assets would be reported under this approach.
c. <i>Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.</i>	YES, for restrictions on net position. However, more detailed information about restrictions is not provided. YES for disclosure of significant risks of potential losses at a government-wide level.	YES. Disclosure of restrictions is a major purpose of fund-based reporting; disclosure of risks also can be usefully reported by fund.	YES. Disclosure of restrictions is a major purpose of fund-based reporting; disclosure of risks also can be usefully reported by fund.	YES. Disclosure of restrictions is a major purpose of fund-based reporting; disclosure of risks also can be usefully reported by fund.	YES. Disclosure of restrictions is a major purpose of fund-based reporting; disclosure of risks also can be usefully reported by fund.

## **APPENDIX D: ILLUSTRATIONS**

D1. This appendix illustrates certain alternatives discussed in this Invitation to Comment. This appendix also includes illustrations that provide context for understanding the alternatives that have been introduced.

Illustration 1: Balance Sheet—Current Financial Resources/Modified Accrual

Illustration 2: Statement of Revenues, Expenditures, and Changes in Fund Balances—Current Financial Resources/Modified Accrual

Illustration 3: Near-Term Financial Resources Balance Sheet

Illustration 4A: Statement of Near-Term Financial Resource Flows—Existing Format

Illustration 4B: Statement of Near-Term Financial Resource Flows—Current and Long-Term Activity Format

Illustration 5: Short-Term Financial Resources Balance Sheet

Illustration 6A: Statement of Short-Term Financial Resource Flows—Existing Format

Illustration 6B: Statement of Short-Term Financial Resource Flows—Current and Long-Term Activity Format

Illustration 7: Long-Term Financial Resources Balance Sheet

Illustration 8A: Statement of Long-Term Financial Resource Flows—Existing Format

Illustration 8B: Statement of Long-Term Financial Resource Flows—Current and Long-Term Activity Format

Illustration 9: Governmental Funds Statement of Cash Flows

**Illustration 1: Balance Sheet—Current Financial Resources/Modified Accrual**

**ABC Government  
Balance Sheet  
Governmental Funds  
June 30, 20XX**

	<u>General Fund</u>	<u>Special Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	33,339,603	5,176,000	3,781,774	42,297,377
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Special assessments receivable	-	-	82,351	82,351
Notes receivable*	-	3,424,420	318,356	3,742,776
Total assets	<u>\$ 37,142,954</u>	<u>\$ 17,447,461</u>	<u>\$ 36,917,149</u>	<u>\$ 91,507,564</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Interfund payable	51,606	227,099	15,195	293,900
Tax anticipation note payable	4,400,000	-	-	4,400,000
Total liabilities	<u>8,350,564</u>	<u>735,044</u>	<u>1,724,502</u>	<u>10,810,110</u>
Deferred inflows of resources:				
Taxes receivable levied for the next year	21,625,730	5,176,000	2,153,024	28,954,754
Special assessments receivable that are unavailable	-	-	82,351	82,351
Total deferred inflows of resources	<u>21,625,730</u>	<u>5,176,000</u>	<u>2,235,375</u>	<u>29,037,105</u>
Fund balances:				
Nonspendable	-	3,424,420	332,156	3,756,576
Restricted	-	8,111,997	32,770,989	40,882,986
Assigned for library	685,630	-	-	685,630
Unassigned	6,481,030	-	(145,873)	6,335,157
Total fund balances	<u>7,166,660</u>	<u>11,536,417</u>	<u>32,957,272</u>	<u>51,660,349</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 37,142,954</u>	<u>\$ 17,447,461</u>	<u>\$ 36,917,149</u>	<u>\$ 91,507,564</u>

\* Practice regarding reporting of notes receivable from lending activities is inconsistent. This illustration reports those balances as assets.

**Illustration 2: Statement of Revenues, Expenditures, and Changes in Fund Balances—Current Financial Resources/Modified Accrual**

**ABC Government**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**for the Year Ended June 30, 20XX**

	<u>General Fund</u>	<u>Special Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Special assessments	-	-	41,500	41,500
Investment earnings	5,829	163,384	19,043	188,256
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total revenues	<u>106,260,279</u>	<u>5,477,022</u>	<u>19,215,973</u>	<u>130,953,274</u>
<b>EXPENDITURES</b>				
Current:				
General government	13,872,732	6,961,201	2,213,691	23,047,624
Public health and safety	70,005,718	-	590,383	70,596,101
Highway and streets	11,987,845	-	4,715,808	16,703,653
Culture and recreation	3,537,359	335,659	1,808,065	5,681,083
Economic development	496,141	-	3,374,045	3,870,186
Capital outlay	345,187	1,515	1,346,497	1,693,199
Debt service	2,438,996	368,326	9,246,555	12,053,877
Total expenditures	<u>102,683,978</u>	<u>7,666,701</u>	<u>23,295,044</u>	<u>133,645,723</u>
Excess (deficiency) of revenues over expenditures	<u>3,576,301</u>	<u>(2,189,679)</u>	<u>(4,079,071)</u>	<u>(2,692,449)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other financing sources (uses)	<u>(7,102,879)</u>	<u>(6,445)</u>	<u>7,885,909</u>	<u>776,585</u>
Net change in fund balance	(3,526,578)	(2,196,124)	3,806,838	(1,915,864)
Fund balances at beginning of year	10,693,238	13,732,541	29,150,434	53,576,213
Fund balances at end of year	<u>\$ 7,166,660</u>	<u>\$ 11,536,417</u>	<u>\$ 32,957,272</u>	<u>\$ 51,660,349</u>

### Illustration 3: Near-Term Financial Resources Balance Sheet

**ABC Government**  
**Near-Term Financial Resources Balance Sheet**  
**Governmental Funds**  
**June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature. For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	<b>General Fund</b>	<b>Special Tax Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>NEAR-TERM ASSETS</b>				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	11,713,873	-	1,628,750	13,342,623
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Total near-term assets	<u>\$ 15,493,724</u>	<u>\$ 8,847,041</u>	<u>\$ 34,349,618</u>	<u>\$ 58,690,383</u>
<b>NEAR-TERM LIABILITIES AND NEAR-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Near-term liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Accrued interest	51,874	22,300	559,827	634,001
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	100,000	-	-	100,000
Total near-term liabilities	<u>4,102,438</u>	<u>757,344</u>	<u>2,284,329</u>	<u>7,144,111</u>
Near-term financial resources fund balances:				
Restricted	-	8,089,697	32,211,162	40,300,859
Assigned for library	685,630	-	-	685,630
Unassigned	10,705,656	-	(145,873)	10,559,783
Total near-term financial resources fund balances	<u>11,391,286</u>	<u>8,089,697</u>	<u>32,065,289</u>	<u>51,546,272</u>
Total near-term liabilities and near-term financial resources fund balances	<u>\$ 15,493,724</u>	<u>\$ 8,847,041</u>	<u>\$ 34,349,618</u>	<u>\$ 58,690,383</u>

**RECONCILIATION OF NEAR-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)**

Near-term financial resources fund balance of governmental funds	\$ 51,546,272
Amounts reported for governmental activities in the statement of net position are different due to:	
Capital assets used in governmental activities that are not near-term financial resources	187,089,527
Other long-term assets that are not available to pay for near-term outflows of resources	3,862,427
Tax anticipation notes that are not near-term liabilities	(4,400,000)
Postemployment benefit liabilities that are not due in the near term	(42,743,028)
Other long-term liabilities, including bonds payable, that are not due in the near term	(36,396,724)
Internal service fund balance that is allocated to governmental activities in the statement of net position	(16,368)
Net position of governmental activities	<u>\$ 158,942,106</u>

## Illustration 4A: Statement of Near-Term Financial Resource Flows—Existing Format

**ABC Government**  
**Statement of Near-Term Financial Resource Flows**  
**Governmental Funds**  
**Year Ended June 30, 20XX**

This financial statement presents a short-term view of governmental fund resource flows and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Payments received on notes and special assessments	-	500,000	186,500	686,500
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of near-term financial resources	106,260,279	5,977,022	19,360,973	131,598,274
<b>OUTFLOWS OF NEAR-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	13,888,388	6,961,201	2,221,691	23,071,280
Public health and safety	70,081,545	-	590,383	70,671,928
Highway and streets	12,000,830	-	4,715,808	16,716,638
Culture and recreation	3,541,191	335,659	1,808,065	5,684,915
Economic development	496,141	-	3,374,045	3,870,186
Capital outlay	345,187	1,515	1,346,497	1,693,199
Debt service	6,435,656	366,890	9,210,517	16,013,063
Total outflows of near-term financial resources	106,788,938	7,665,265	23,267,006	137,721,209
Excess of inflows over outflows	(528,659)	(1,688,243)	(3,906,033)	(6,122,935)
<b>OTHER FINANCING SOURCES AND USES</b>				
Leases—lessee	233,200	-	-	233,200
Proceeds from the issuance of tax anticipation notes	4,400,000	-	-	4,400,000
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other financing sources and uses	(2,702,879)	(6,445)	7,885,909	5,176,585
Net change in near-term financial resources fund balances	(3,231,538)	(1,694,688)	3,979,876	(946,350)
Near-term financial resources fund balances at beginning of year	14,622,824	9,784,385	28,085,413	52,492,622
Near-term financial resources fund balances at end of year	\$ 11,391,286	\$ 8,089,697	\$ 32,065,289	\$ 51,546,272
<b>RECONCILIATION OF NET CHANGE IN NEAR-TERM FINANCIAL RESOURCES FUND BALANCE TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in near-term financial resources fund balance of governmental funds				\$ (946,350)
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide near-term financial resources				(686,500)
Expenses that do not require the use of near-term financial resources				(4,642,130)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Net change in tax anticipation notes reported as near-term resource inflows above				(400,000)
Principal paid on long-term debt and related items reported as near-term resource outflows above				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 4B: Statement of Near-Term Financial Resource Flows—Current and Long-Term Activity Format

**ABC Government**  
**Statement of Near-Term Financial Resource Flows**  
**Governmental Funds**  
**Year Ended June 30, 20XX**

This financial statement presents a short-term view of government fund resource flows and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF NEAR-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Payments received on notes and special assessments	-	500,000	186,500	686,500
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Transfers in	500,000	-	155,204	655,204
Total inflows of near-term financial resources for current activities	106,760,279	5,977,022	19,516,177	132,253,478
<b>OUTFLOWS OF NEAR-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	13,888,388	6,961,201	2,221,691	23,071,280
Public health and safety	70,081,545	-	590,383	70,671,928
Highway and streets	12,000,830	-	4,715,808	16,716,638
Culture and recreation	3,541,191	335,659	1,808,065	5,684,915
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Total outflows of near-term financial resources for current activities	100,163,299	7,296,860	13,209,992	120,670,151
Net flows of near-term financial resources for current activities	6,596,980	(1,319,838)	6,306,185	11,583,327
<b>NET FLOWS OF NEAR-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Leases—lessee	233,200	-	-	233,200
Proceeds from the issuance of tax anticipation notes	4,400,000	-	-	4,400,000
Transfers in	-	-	10,651,605	10,651,605
Capital outlay	(345,187)	(1,515)	(1,346,497)	(1,693,199)
Debt service	(2,435,656)	(366,890)	(9,210,517)	(12,013,063)
Payment on tax anticipation notes	(4,000,000)	-	-	(4,000,000)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of near-term financial resources for long-term activities	(9,828,518)	(374,850)	(2,326,309)	(12,529,677)
Net change in near-term financial resources fund balances	(3,231,538)	(1,694,688)	3,979,876	(946,350)
Near-term financial resources fund balances at beginning of year	14,622,824	9,784,385	28,085,413	52,492,622
Near-term financial resources fund balances at end of year	\$ 11,391,286	\$ 8,089,697	\$ 32,065,289	\$ 51,546,272
<b>RECONCILIATION OF NET CHANGE IN NEAR-TERM FINANCIAL RESOURCES FUND BALANCE TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in near-term financial resources fund balance of governmental funds				\$ (946,350)
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide near-term financial resources				(686,500)
Expenses that do not require the use of near-term financial resources				(4,642,130)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Net change in tax anticipation notes reported as near-term resource inflows above				(400,000)
Principal paid on long-term debt and related items reported as near-term resource outflows above				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 5: Short-Term Financial Resources Balance Sheet

**ABC Government**  
**Short-Term Financial Resources Balance Sheet**  
**Governmental Funds**  
**June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature. For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	<u>General Fund</u>	<u>Special Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>SHORT-TERM ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Short-term assets:				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	33,339,603	5,176,000	3,781,774	42,297,377
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Special assessments receivable	-	-	25,000	25,000
Notes receivable	-	450,000	125,000	575,000
Total short-term assets	<u>37,142,954</u>	<u>14,473,041</u>	<u>36,666,442</u>	<u>88,282,437</u>
Deferred outflows of resources:				
Accumulated decrease in fair value of hedging derivative	155,631	-	-	155,631
Total deferred outflows of resources	<u>155,631</u>	<u>-</u>	<u>-</u>	<u>155,631</u>
Total short-term assets and deferred outflows of resources	<u>\$ 37,298,585</u>	<u>\$ 14,473,041</u>	<u>\$ 36,666,442</u>	<u>\$ 88,438,068</u>
<b>SHORT-TERM LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND SHORT-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Short-term liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Compensated absences payable	204,566	-	-	204,566
Accrued interest payable	69,165	29,733	746,436	845,334
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	1,950,000	-	-	1,950,000
Derivative instrument-interest rate swap	155,631	-	-	155,631
Tax anticipation note payable	4,400,000	-	-	4,400,000
Leases payable	98,869	42,503	1,067,012	1,208,384
Bonds payable	357,427	153,655	3,857,396	4,368,478
Other postemployment benefits	3,416,452	-	-	3,416,452
Pension benefits	1,116,153	-	-	1,116,153
Total short-term liabilities	<u>15,718,827</u>	<u>960,935</u>	<u>7,395,346</u>	<u>24,075,108</u>
Deferred inflows of resources:				
Taxes receivable levied for the next year	21,625,730	5,176,000	2,153,024	28,954,754
Total deferred inflows of resources	<u>21,625,730</u>	<u>5,176,000</u>	<u>2,153,024</u>	<u>28,954,754</u>
Short-term financial resources fund balances:				
Nonspendable	-	-	13,800	13,800
Restricted	-	8,336,106	26,075,102	34,411,208
Assigned	685,630	-	-	685,630
Unassigned	(731,602)	-	1,029,170	297,568
Total short-term financial resources fund balances	<u>(45,972)</u>	<u>8,336,106</u>	<u>27,118,072</u>	<u>35,408,206</u>
Total short-term liabilities, deferred inflows of resources, and short-term financial resources fund balances	<u>\$ 37,298,585</u>	<u>\$ 14,473,041</u>	<u>\$ 36,666,442</u>	<u>\$ 88,438,068</u>

**RECONCILIATION OF SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)**

Short-term financial resources fund balance of governmental funds	\$ 35,408,206
Amounts reported for governmental activities in the statement of net position are different due to:	
Capital assets used in governmental activities that are not short-term financial resources	187,089,527
Other long-term assets that are not available to pay for short-term outflows of resources	3,225,127
Postemployment benefit liabilities that are not due in the subsequent operating cycle	(38,210,423)
Other long-term liabilities, including bonds payable, that are not due in the subsequent operating cycle	(28,553,963)
Internal service fund balance that is allocated to governmental activities in the statement of net position	(16,368)
Net position of governmental activities	<u>\$ 158,942,106</u>

## Illustration 6A: Statement of Short-Term Financial Resource Flows—Existing Format

**ABC Government**  
**Statement of Short-Term Financial Resource Flows**  
**Governmental Funds**  
**Year Ended June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
 For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Special assessments and other inflows related to long-term receivables	-	450,000	150,000	600,000
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of short-term financial resources	106,260,279	5,927,022	19,324,473	131,511,774
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	14,104,050	6,961,201	1,984,319	23,049,570
Public health and safety	71,125,997	-	590,383	71,716,380
Highway and streets	12,179,683	-	4,715,808	16,895,491
Culture and recreation	3,593,966	335,659	1,808,065	5,737,690
Economic development	496,141	-	3,374,045	3,870,186
Interest	195,920	84,224	2,114,391	2,394,535
Capital outlay	345,187	1,515	1,346,497	1,693,199
Total outflows of short-term financial resources	102,040,944	7,382,599	15,933,508	125,357,051
Excess (deficiency) of inflows over outflows	4,219,335	(1,455,577)	3,390,965	6,154,723
<b>OTHER FLOWS OF SHORT-TERM FINANCIAL RESOURCES</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Outflows related to current portion of long-term debt	(456,296)	(196,158)	(4,924,408)	(5,576,862)
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other noncurrent inflows (and outflows)	(7,559,175)	(202,603)	2,961,501	(4,800,277)
Net change in short-term financial resources fund balances	(3,339,840)	(1,658,180)	6,352,466	1,354,446
Short-term financial resources fund balances at beginning of year	3,293,868	9,994,286	20,765,606	34,053,760
Short-term financial resources fund balances at end of year	\$ (45,972)	\$ 8,336,106	\$ 27,118,072	\$ 35,408,206
<b>RECONCILIATION OF NET CHANGE IN SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in short-term financial resources fund balance of governmental funds				\$ 1,354,446
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide short-term financial resources				(600,000)
Expenses that do not require the use of short-term financial resources				(3,401,362)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Recognition of the current portion of long-term debt				5,576,862
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 6B: Statement of Short-Term Financial Resource Flows—Current and Long-Term Activity Format

**ABC Government**  
**Statement of Short-Term Financial Resource Flows**  
**Governmental Funds**  
**Year Ended June 30, 20XX**

This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	<b>General Fund</b>	<b>Special Tax Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>INFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Special assessments and other inflows related to long-term receivables	-	450,000	150,000	600,000
Transfers in	500,000	-	155,204	655,204
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of short-term financial resources for current activities	<u>106,760,279</u>	<u>5,927,022</u>	<u>19,479,677</u>	<u>132,166,978</u>
<b>OUTFLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	14,104,050	6,961,201	1,984,319	23,049,570
Public health and safety	71,125,997	-	590,383	71,716,380
Highway and streets	12,179,683	-	4,715,808	16,895,491
Culture and recreation	3,593,966	335,659	1,808,065	5,737,690
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	<u>101,655,041</u>	<u>7,296,860</u>	<u>12,972,620</u>	<u>121,924,521</u>
Net flows of short-term financial resources for current activities	<u>5,105,238</u>	<u>(1,369,838)</u>	<u>6,507,057</u>	<u>10,242,457</u>
<b>NET FLOWS OF SHORT-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	-	-	10,651,605	10,651,605
Outflows related to current portion of long-term debt	(456,296)	(196,158)	(4,924,408)	(5,576,862)
Interest	(195,920)	(84,224)	(2,114,391)	(2,394,535)
Capital outlay	(345,187)	(1,515)	(1,346,497)	(1,693,199)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of short term financial resources for long term activities	<u>(8,445,078)</u>	<u>(288,342)</u>	<u>(154,591)</u>	<u>(8,888,011)</u>
Net change in short-term financial resources fund balances	(3,339,840)	(1,658,180)	6,352,466	1,354,446
Short-term financial resources fund balances at beginning of year	3,293,868	9,994,286	20,765,606	34,053,760
Short-term financial resources fund balances at end of year	<u>\$ (45,972)</u>	<u>\$ 8,336,106</u>	<u>\$ 27,118,072</u>	<u>\$ 35,408,206</u>
<b>RECONCILIATION OF NET CHANGE IN SHORT-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in short-term financial resources fund balance of governmental funds				\$ 1,354,446
Amounts reported for governmental activities in the statement of activities are different due to:				
Revenues that do not provide short-term financial resources				(600,000)
Expenses that do not require the use of short-term financial resources				(3,401,362)
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Recognition of the current portion of long-term debt				5,576,862
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				<u>\$ (77,554)</u>

## Illustration 7: Long-Term Financial Resources Balance Sheet

**ABC Government**  
**Long-Term Financial Resources Balance Sheet**  
**Governmental Funds**  
**June 30, 20XX**

This financial statement presents governmental fund activities resulting from financial resources and excludes nonfinancial resources such as capital assets and long-term debt related to capital assets. For a complete portrayal of the financial position of the governmental activities, see the government-wide statement of net position.

	<u>General Fund</u>	<u>Special Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 861,272	\$ 8,846,434	\$ 30,571,406	\$ 40,279,112
Taxes receivable	33,339,603	5,176,000	3,781,774	42,297,377
Intergovernmental receivables	662	607	83,736	85,005
Grant receivable	250,992	-	-	250,992
Other receivables	2,056,859	-	1,457,817	3,514,676
Interfund receivables	610,066	-	607,909	1,217,975
Prepaid item	-	-	13,800	13,800
Inventory	23,500	-	-	23,500
Special assessments receivable	-	-	25,000	25,000
Notes receivable	-	450,000	125,000	575,000
Total current assets	<u>37,142,954</u>	<u>14,473,041</u>	<u>36,666,442</u>	<u>88,282,437</u>
Noncurrent assets:				
Special assessments receivable	-	-	57,351	57,351
Notes receivable	-	2,974,420	193,356	3,167,776
Total noncurrent assets	<u>-</u>	<u>2,974,420</u>	<u>250,707</u>	<u>3,225,127</u>
Total long-term assets	<u>37,142,954</u>	<u>17,447,461</u>	<u>36,917,149</u>	<u>91,507,564</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions	41,317	-	-	41,317
Other postemployment benefits	2,129,536	-	-	2,129,536
Total deferred outflows of resources	<u>2,170,853</u>	<u>-</u>	<u>-</u>	<u>2,170,853</u>
Total long-term assets and deferred outflows of resources	<u>\$ 39,313,807</u>	<u>\$ 17,447,461</u>	<u>\$ 36,917,149</u>	<u>\$ 93,678,417</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 929,666	\$ 493,212	\$ 1,642,560	\$ 3,065,438
Other payables	2,444	-	926	3,370
Accrued payroll	2,966,848	14,733	65,821	3,047,402
Compensated absences payable	204,566	-	-	204,566
Accrued interest payable	69,165	29,733	746,436	845,334
Interfund payable	51,606	227,099	15,195	293,900
Claims payable	1,950,000	-	-	1,950,000
Tax anticipation note payable	4,400,000	-	-	4,400,000
Other postemployment benefits	3,416,452	-	-	3,416,452
Total current liabilities	<u>13,990,747</u>	<u>764,777</u>	<u>2,470,938</u>	<u>17,226,462</u>
Noncurrent liabilities:				
Compensated absences payable	4,765,505	-	-	4,765,505
Claims payable	600,000	-	-	600,000
Pension benefits	826,333	-	-	826,333
Other postemployment benefits	39,368,585	-	-	39,368,585
Total noncurrent liabilities	<u>45,560,423</u>	<u>-</u>	<u>-</u>	<u>45,560,423</u>
Total long-term liabilities	<u>59,551,170</u>	<u>764,777</u>	<u>2,470,938</u>	<u>62,786,885</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes receivable levied for the next year	21,625,730	5,176,000	2,153,024	28,954,754
Pensions	24,790	-	-	24,790
Other postemployment benefits	1,277,721	-	-	1,277,721
Total deferred inflows of resources	<u>22,928,241</u>	<u>5,176,000</u>	<u>2,153,024</u>	<u>30,257,265</u>
<b>LONG-TERM FINANCIAL RESOURCES FUND BALANCES</b>				
Nonspendable	-	-	13,800	13,800
Restricted	-	8,111,997	32,770,989	40,882,986
Assigned	685,630	-	-	685,630
Unassigned	(43,851,234)	3,394,687	(491,602)	(40,948,149)
Long-term financial resources fund balances	<u>(43,165,604)</u>	<u>11,506,684</u>	<u>32,293,187</u>	<u>634,267</u>
Long-term financial resources liabilities, deferred inflows of resources, and long-term financial resources fund balances	<u>\$ 39,313,807</u>	<u>\$ 17,447,461</u>	<u>\$ 36,917,149</u>	<u>\$ 93,678,417</u>
<b>RECONCILIATION OF LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION (see Note X)</b>				
Long-term financial resources fund balance of governmental funds				\$ 634,267
Amounts reported for governmental activities in the statement of net position are different due to:				
Capital assets used in governmental activities that are not long-term financial resources				187,089,527
Other long-term liabilities, including bonds payable, that are capital-related				(28,765,320)
Internal service fund balance that are allocated to governmental activities in the statement of net position				(16,368)
Net position of governmental activities				<u>\$ 158,942,106</u>

## Illustration 8A: Statement of Long-Term Financial Resource Flows—Existing Format

### ABC Government Statement of Long-Term Financial Resource Flows Governmental Funds Year Ended June 30, 20XX

This financial statement presents financial resource flows of governmental funds.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF LONG-TERM FINANCIAL RESOURCES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Total inflows of long-term financial resources	<u>106,260,279</u>	<u>5,477,022</u>	<u>19,174,473</u>	<u>130,911,774</u>
<b>OUTFLOWS OF LONG-TERM FINANCIAL RESOURCES</b>				
Current:				
General government	14,562,624	6,961,201	2,213,691	23,737,516
Public health and safety	73,346,886	-	590,383	73,937,269
Highway and streets	12,156,673	-	4,715,808	16,872,481
Culture and recreation	4,109,503	335,659	1,808,065	6,253,227
Economic development	496,141	-	3,374,045	3,870,186
Debt service-principal on capital-related debt	2,238,624	282,188	7,084,114	9,604,926
Interest	195,920	84,224	2,114,391	2,394,535
Capital outlay	345,187	1,515	1,346,497	1,693,199
Total outflows of long-term financial resources	<u>107,451,558</u>	<u>7,664,787</u>	<u>23,246,994</u>	<u>138,363,339</u>
Excess (deficiency) of inflows over outflows	<u>(1,191,279)</u>	<u>(2,187,765)</u>	<u>(4,072,521)</u>	<u>(7,451,565)</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Leases—lessee	233,200	-	-	233,200
Transfers in	500,000	-	10,806,809	11,306,809
Transfers out	(7,836,079)	(6,445)	(2,920,900)	(10,763,424)
Total other financing sources and uses	<u>(7,102,879)</u>	<u>(6,445)</u>	<u>7,885,909</u>	<u>776,585</u>
Net change in long-term financial resources fund balances	(8,294,158)	(2,194,210)	3,813,388	(6,674,980)
Long-term financial resources fund balances at beginning of year	(34,871,446)	13,700,894	28,479,799	7,309,247
Long-term financial resources fund balances at end of year	<u>\$ (43,165,604)</u>	<u>\$ 11,506,684</u>	<u>\$ 32,293,187</u>	<u>\$ 634,267</u>
<b>RECONCILIATION OF NET CHANGE IN LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in long-term financial resources fund balance of governmental funds				\$ (6,674,980)
Amounts reported for governmental activities in the statement of activities are different due to:				
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Payments on capital debt above are not expenses in the statement of activities				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				<u>\$ (77,554)</u>

## Illustration 8B: Statement of Long-Term Financial Resource Flows—Current and Long-Term Activity Format

### ABC Government Statement of Long-Term Financial Resource Flows Governmental Funds Year Ended June 30, 20XX

This financial statement presents financial resource flows of governmental funds.  
For a complete portrayal of the governmental activities flows, see the government-wide statement of activities.

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>INFLOWS OF LONG-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
Taxes:				
Property tax	\$ 20,322,167	\$ 5,159,156	\$ 2,015,047	\$ 27,496,370
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
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	-	6,292,493	20,887,512
Investment earnings	5,829	163,384	19,043	188,256
Miscellaneous	4,216,940	154,482	626,287	4,997,709
Transfers in	500,000	-	155,204	655,204
Total inflows of long-term financial resources for current activities	106,760,279	5,477,022	19,329,677	131,566,978
<b>OUTFLOWS OF LONG-TERM FINANCIAL RESOURCES FOR CURRENT ACTIVITIES</b>				
General government	14,562,624	6,961,201	2,213,691	23,737,516
Public health and safety	73,346,886	-	590,383	73,937,269
Highway and streets	12,156,673	-	4,715,808	16,872,481
Culture and recreation	4,109,503	335,659	1,808,065	6,253,227
Economic development	496,141	-	3,374,045	3,870,186
Transfers out	155,204	-	500,000	655,204
Interest	195,920	84,224	2,114,391	2,394,535
Total outflows of long-term financial resources for current activities	105,022,951	7,381,084	15,316,383	127,720,418
Net flows of long-term financial resources for current activities	1,737,328	(1,904,062)	4,013,294	3,846,560
<b>NET FLOWS OF LONG-TERM FINANCIAL RESOURCES FOR LONG-TERM ACTIVITIES</b>				
Transfers in	-	-	10,651,605	10,651,605
Leases—lessee	233,200	-	-	233,200
Capital outlay	(345,187)	(1,515)	(1,346,497)	(1,693,199)
Debt service	(2,238,624)	(282,188)	(7,084,114)	(9,604,926)
Transfers out	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net flows of long-term financial resources for long-term activities	(10,031,486)	(290,148)	(199,906)	(10,521,540)
Net change in long-term financial resources fund balances	(8,294,158)	(2,194,210)	3,813,388	(6,674,980)
Long-term financial resources fund balances at beginning of year	(34,871,446)	13,700,894	28,479,799	7,309,247
Long-term financial resources fund balances at end of year	\$ (43,165,604)	\$ 11,506,684	\$ 32,293,187	\$ 634,267
<b>RECONCILIATION OF NET CHANGE IN LONG-TERM FINANCIAL RESOURCES FUND BALANCE OF GOVERNMENTAL FUNDS TO NET CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES (see Note X)</b>				
Net change in long-term financial resources fund balances of governmental funds				\$ (6,674,980)
Amounts reported for governmental activities in the statement of activities are different due to:				
Difference between depreciation in the statement of activities and capital outlay outflows above				(3,026,375)
Payments on capital debt above are not expenses in the statement of activities				9,604,926
Internal service fund activities that are allocated to governmental activities in the statement of activities				18,875
Change in net position of governmental activities				\$ (77,554)

## Illustration 9: Governmental Funds Statement of Cash Flows

**ABC Government**  
**Statement of Cash Flows**  
**Governmental Funds**  
**June 30, 20XX**

	General Fund	Special Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and others	\$ 13,338,224	\$ 154,482	\$ 615,251	\$ 14,107,957
Payments to employees	(73,056,349)	(5,469,288)	(9,307,193)	(87,832,830)
Payments to suppliers	(23,083,117)	(2,071,850)	(3,966,033)	(29,121,000)
Payments to claimants	(600,000)	-	-	(600,000)
Payments to other funds	(2,564,791)	-	(974,326)	(3,539,117)
Net cash provided (used) by operating activities	<u>(85,966,033)</u>	<u>(7,386,656)</u>	<u>(13,632,301)</u>	<u>(106,984,990)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Taxes and payments in lieu of taxes received	81,418,903	5,409,226	11,892,516	98,720,645
Intergovernmental taxes received	9,996,146	-	-	9,996,146
Operating grants received	4,469,756	-	5,667,381	10,137,137
Proceeds from tax anticipation note	4,400,000	-	-	4,400,000
Principal paid on tax anticipation note	(4,000,000)	-	-	(4,000,000)
Interest paid on tax anticipation note	(43,577)	-	-	(43,577)
Transfers in	666,486	-	4,078,762	4,745,248
Net cash provided (used) by noncapital financing activities	<u>96,907,714</u>	<u>5,409,226</u>	<u>21,638,659</u>	<u>123,955,599</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital-related notes receivable	-	500,000	145,000	645,000
Proceeds from capital-related special assessments receivable	-	-	41,500	41,500
Principal paid on capital debt	(2,238,624)	(282,188)	(7,084,114)	(9,604,926)
Interest paid on capital debt	(156,795)	(86,138)	(2,162,441)	(2,405,374)
Capital grants received	-	-	699,127	699,127
Purchases of capital assets	(11,987)	(1,515)	(1,346,497)	(1,359,999)
Transfers from other funds for capital debt payments	-	-	10,651,605	10,651,605
Transfers to other funds for capital debt payments	(7,680,875)	(6,445)	(2,420,900)	(10,108,220)
Net cash provided (used) by capital and related financing activities	<u>(10,088,281)</u>	<u>123,714</u>	<u>(1,476,720)</u>	<u>(11,441,287)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	-	475,000	-	475,000
Purchase of investments	-	(450,000)	-	(450,000)
Interest earnings received	5,829	138,384	19,043	163,256
Net cash provided (used) by investing activities	<u>5,829</u>	<u>163,384</u>	<u>19,043</u>	<u>188,256</u>
Net increase (decrease) in cash	859,229	(1,690,332)	6,548,681	5,717,578
Cash beginning of year	2,043	10,536,766	24,022,725	34,561,534
Cash end of year	<u>\$ 861,272</u>	<u>\$ 8,846,434</u>	<u>\$ 30,571,406</u>	<u>\$ 40,279,112</u>
<b>NONCASH CAPITAL AND NONCAPITAL FINANCING ACTIVITIES</b>				
Leases—lessee	\$ 233,200	\$ -	\$ -	\$ 233,200
Recognition of current portion of long-term capital debt*	(456,296)	(196,158)	(4,924,408)	(5,576,862)
Recognition of current portion of long-term receivables*	-	450,000	150,000	600,000
Recognition of change in fair value of effective hedging derivative instrument*	-	-	(155,631)	-

\*Applicable only to the short-term approach.

## APPENDIX E: RECOGNITION APPROACHES AND DISCUSSION OF SELECTED TRANSACTIONS

This table provides a comparison of the recognition of certain transactions in governmental fund financial statements using each of the approaches discussed in Chapter 2.

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Taxes receivable:</u> End of year (EOY) balance was \$42,297,377, which consists of \$28,954,754 of property taxes receivable and \$13,342,623 of other taxes receivable. The property taxes were levied at the end of the fiscal year for the subsequent fiscal year, were due six months and nine months after the period-end. The other taxes were associated with the current period and were due within the near term.</p>	<p>Recognize an asset and a deferred inflow of resources for amounts that are not available to pay liabilities of the current period or amounts levied for a future year.</p>	<p>Recognize an asset for amounts receivable at year-end and normally due within the near term.</p>	<p>Recognize an asset for amounts receivable at year-end and normally due within the subsequent operating cycle. Recognize deferred inflows of resources for amounts levied for a future year.</p>	<p>Recognize an asset for amounts receivable at year-end. Recognize deferred inflows of resources for amounts levied for a future year.</p>
<p><u>Reported amounts:</u></p>	<p>Taxes receivable of \$42,297,377 and deferred inflows of resources of \$28,954,754 in Illustration 1. Revenue of \$13,342,623 related to the receivable is included in taxes in Illustration 2.</p>	<p>Taxes receivable of \$13,342,623 in Illustration 3. Inflows of resources of \$13,342,623 related to the receivable are included in taxes in Illustrations 4A and 4B.</p>	<p>Taxes receivable of \$42,297,377 and deferred inflows of resources of \$28,954,754 in Illustration 5. Inflows of resources of \$13,342,623 related to the receivable are included in taxes in Illustrations 6A and 6B.</p>	<p>Taxes receivable of \$42,297,377 and deferred inflows of resources of \$28,954,754 in Illustration 7. Inflows of resources of \$13,342,623 related to the receivable are included in taxes in Illustrations 8A and 8B.</p>

<b><u>Transaction</u></b>	<b><u>Current Approach Illustrations 1 and 2</u></b>	<b><u>Near-Term Approach Illustrations 3, 4A, and 4B</u></b>	<b><u>Short-Term Approach Illustrations 5, 6A, and 6B</u></b>	<b><u>Long-Term Approach Illustrations 7, 8A, and 8B</u></b>
<p><u>Prepaid items:</u> Beginning of year (BOY) balance was \$5,800. During the year, \$60,000 was spent for prepaid items, of which \$13,800 related to next year.</p>	Recognize an asset, with changes reported as expenditures.	Recognize an outflow of resources, because prepaid items are not available to be converted to cash.	Recognize an asset for acquisition of prepaid items and an outflow of resources when the prepaid items are consumed.	Recognize an asset for acquisition of prepaid items and an outflow of resources when the prepaid items are consumed.
<p><u>Reported amounts:</u></p>	Prepaid item and nonspendable fund balance of \$13,800 in Illustration 1. Outflows of resources of \$52,000 are included in the current outflows of resources by function in Illustration 2.	No prepaid item is recognized in Illustration 3. Outflows of resources of \$60,000 are included in the current outflows of resources by function in Illustrations 4A and 4B.	Prepaid item of \$13,800 in Illustration 5. Outflows of resources of \$52,000 are included in the current outflows of resources by function in Illustrations 6A and 6B.	Prepaid item of \$13,800 in Illustration 7. Outflows of resources of \$52,000 are included in the current outflows of resources by function in Illustrations 8A and 8B.
<p><u>Inventory:</u> BOY balance was \$15,200. During the year, \$185,000 was spent on inventory with an EOY balance of \$23,500.</p>	If the consumption method is elected, recognize an asset when inventory is purchased and an expenditure when inventory is consumed.	Recognize an outflow of resources, because inventory is not available to be converted to cash.	Recognize an asset when inventory is purchased and an outflow of resources when inventory is consumed.	Recognize an asset when inventory is purchased and an outflow of resources when inventory is consumed.
<p><u>Reported amounts:</u></p>	Inventory of \$23,500 in Illustration 1. Outflows of resources of \$176,700 are included in the current outflows of resources by function in Illustration 2.	No inventory is recognized in Illustration 3. Outflows of resources of \$185,000 are included in the current outflows of resources by function in Illustrations 4A and 4B.	Inventory of \$23,500 in Illustration 5. Outflows of resources of \$176,700 are included in the current outflows of resources by function in Illustrations 6A and 6B.	Inventory of \$23,500 in Illustration 7. Outflows of resources of \$176,700 are included in the current outflows of resources by function in Illustrations 8A and 8B.

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Special assessments:</u> BOY receivable balance was \$123,851, collections during the year were \$41,500, resulting in an \$82,351 EOY balance, of which \$25,000 was scheduled to be collected in the subsequent year, but beyond the near term.</p>	<p>Recognize an asset and a deferred inflow of resources for amounts receivable at year-end.</p>	<p>Recognize an asset for amounts receivable at year-end and normally due within the near term. Recognize an inflow of resources for assessments received during the period.</p>	<p>Recognize an asset and an inflow of resources for amounts receivable at year-end and normally due within the subsequent operating cycle.</p>	<p>Recognize an asset for amounts receivable at year-end. Recognize an inflow of resources in the year the special assessment is assessed.</p>
<p><u>Reported amounts:</u></p>	<p>Special assessments receivable of \$82,351 and deferred inflow of resources of \$82,351 in Illustration 1. Special assessments revenue of \$41,500 in Illustration 2.</p>	<p>No receivable is included in Illustration 3. Inflows of resources of \$41,500 are included in Illustrations 4A and 4B.</p>	<p>Special assessments receivable of \$25,000 in Illustration 5. Inflows of resources of \$25,000 are included in Illustrations 6A and 6B.</p>	<p>Current special assessments receivable of \$25,000 and noncurrent special assessments receivable of \$57,351 in Illustration 7. No inflows of resources are included in Illustrations 8A and 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Notes receivable from lending ABC Government resources:</u> BOY receivable balance was \$4,387,776, collections during the year were \$645,000, resulting in a \$3,742,776 EOY balance, of which \$575,000 was scheduled to be collected in the subsequent year, but beyond the near term.</p>	<p>Current practice for reporting notes receivable is inconsistent. Recognize an asset and report nonspendable fund balance for amounts not available to pay liabilities of the current period. This presentation should not be used to establish a precedent for reporting notes receivable.</p>	<p>Recognize an asset for amounts receivable at year-end and normally due within the near term. Recognize an inflow of resources for payments received during the period.</p>	<p>Recognize an asset and an inflow of resources for amounts receivable at year-end and normally due within the subsequent operating cycle.</p>	<p>Recognize an asset for amounts receivable at year-end.</p>
<p><u>Reported amounts:</u></p>	<p>Notes receivable of \$3,742,776, and nonspendable fund balance of \$3,742,776 in Illustration 1.</p>	<p>No receivable is included in Illustration 3. Inflows of resources of \$645,000 are included in Illustrations 4A and 4B.</p>	<p>Notes receivable of \$575,000 in Illustration 5. Inflows of resources of \$575,000 are included in Illustrations 6A and 6B.</p>	<p>Current notes receivable of \$575,000 and noncurrent notes receivable of \$3,167,776 in Illustration 7. No inflows of resources are included in Illustrations 8A and 8B.</p>

<u>Transaction</u>	<b><u>Current Approach Illustrations 1 and 2</u></b>	<b><u>Near-Term Approach Illustrations 3, 4A, and 4B</u></b>	<b><u>Short-Term Approach Illustrations 5, 6A, and 6B</u></b>	<b><u>Long-Term Approach Illustrations 7, 8A, and 8B</u></b>
<p><u>Hedging derivative instrument:</u> The hedging derivative instrument was an effective hedge, had nine years remaining on the term of the contract, had a declining notional amount, and was associated with capital-related debt. The instrument had a negative fair value of \$532,882 at EOY, of which \$155,631 was the fair value of the payments normally due within the subsequent operating cycle, but beyond the near term.</p>	<p>Current guidance does not address this transaction. Hedging derivative instruments are not recognized. This presentation should not be used to establish a precedent for reporting of hedging derivative transactions.</p>	<p>Recognize a liability (or asset) and a deferred outflow of resources (or deferred inflow of resources) for settlement payments (receivables) related to a hedging derivative instrument that are payable (or receivable) and normally due within the near term.</p>	<p>Recognize a liability (or asset) and a deferred outflow of resources (or deferred inflow of resources) for settlement payments (receivables) related to a hedging derivative instrument that are payable (or receivable) and normally due within the subsequent operating cycle.</p>	<p>Recognize a liability (or asset) for the fair value of a hedging derivative instrument associated with debt that is not capital-related debt, in the same manner as the economic resources measurement focus. A hedging derivative instrument associated with capital-related debt is not recognized.</p>
<p><u>Reported amounts:</u></p>	<p>No amounts are included in Illustrations 1 and 2.</p>	<p>No amounts are included in Illustrations 3, 4A, and 4B.</p>	<p>Liability of \$155,631 and deferred outflows of resources of \$155,631 in Illustration 5. No amounts are included in Illustrations 6A and 6B.</p>	<p>No amounts are included in Illustrations 7, 8A, and 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Compensated absences:</u> BOY liability was a total of \$4,824,057 (\$4,637,636 long-term and \$186,421 short-term). Current-year amount earned was \$146,014, which resulted in a total EOY liability of \$4,970,071 (\$4,765,505 due in the long term and \$204,566 due within the short term). Short-term amounts were due beyond the near term. Compensated absences are accounted for on the last-in, first-out basis—that is, benefits earned in the current period are used first.</p>	<p>Recognize a liability and an outflow of resources to the extent normally expected to be liquidated with expendable available financial resources.</p>	<p>Recognize a liability and an outflow of resources to the extent payable at year-end and normally due within the near term.</p>	<p>Recognize a liability and an outflow of resources for the amount normally due within the subsequent operating cycle.</p>	<p>Recognize the entire liability and related outflows of resources for the amounts accrued at period-end.</p>
<p><u>Reported amounts:</u></p>	<p>No amounts are included in Illustrations 1 and 2.</p>	<p>No amounts are included in Illustrations 3, 4A, and 4B.</p>	<p>Compensated absences payable of \$204,566 in Illustration 5. Outflows of resources of \$18,145 for the increase in the liability from the prior year are included in the current outflows of resources by function in Illustrations 6A and 6B.</p>	<p>Current compensated absences payable of \$204,566 and noncurrent compensated absences payable of \$4,765,505 in Illustration 7. Outflows of resources of \$146,014 are included in the current outflows of resources by function in Illustrations 8A and 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Accrued interest on long-term debt:</u> BOY liability was \$899,750, which was paid during the year, and EOY liability was \$845,334, of which 75% (BOY \$674,813 and EOY \$634,001) was normally due within the near term.</p>	<p>Recognize a liability and an outflow of resources in the period due.</p>	<p>Recognize a liability for amounts payable at year-end and normally due within the near term.</p>	<p>Recognize a liability and an outflow of resources for amounts payable at year-end and normally due within the subsequent operating cycle.</p>	<p>Recognize a liability and an outflow of resources for amounts accrued at period-end.</p>
<p><u>Reported amounts:</u></p>	<p>No liability is included in Illustration 1. Debt service expenditures of \$2,448,950, which are based on payment due dates and include the payment of the BOY liability of \$899,750, are included in Illustration 2.</p>	<p>Accrued interest payable of \$634,001 in Illustration 3. Outflows of resources of \$2,408,138 (\$40,812 reduction of accrued interest, \$2,448,950 of interest paid) are included in debt service in Illustrations 4A and 4B.</p>	<p>Accrued interest payable of \$845,334 in Illustration 5. Outflows of resources of \$845,334 are included as part of interest in Illustration 6A, and net flows of short-term financial resources for long-term activities in Illustration 6B.</p>	<p>Accrued interest payable of \$845,334 in Illustration 7. Outflows of resources of \$845,334 are included in interest in Illustration 8A, and outflows of long-term financial resources for current activities in Illustration 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Claims payable:</u> BOY liability was \$1,300,000 (\$0 normally due within the near term, \$600,000 normally due within the short term). Claims incurred during the period were \$1,850,000. Claims paid during the year were \$600,000, resulting in an EOY liability of \$2,550,000. \$100,000 of the EOY liability was normally due within the near term; an additional \$1,850,000 in the subsequent operating cycle.</p>	<p>Recognize a liability and an outflow of resources as claims become due and payable.</p>	<p>Recognize a liability and an outflow of resources for claims that are payable at year-end and normally due within the near term.</p>	<p>Recognize a liability and an outflow of resources for amounts normally due within the subsequent operating cycle.</p>	<p>Recognize a liability and an outflow of resources for claims in the period they are incurred.</p>
<p><u>Reported amounts:</u></p>	<p>No liability is included in Illustration 1. Expenditures of \$600,000 are included in the current expenditures by function in Illustration 2.</p>	<p>Claims payable of \$100,000 in Illustration 3. Outflows of resources of \$700,000 are included in the current outflows of resources by function in Illustrations 4A and 4B.</p>	<p>Claims payable of \$1,950,000 in Illustration 5. Outflows of resources of \$1,950,000 are included in the current outflows of resources by function in Illustrations 6A and 6B.</p>	<p>Current claims payable of \$1,950,000 and noncurrent claims payable of \$600,000 in Illustration 7. Outflows of resources of \$1,850,000 are included in the outflows of resources by function in Illustrations 8A and 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Tax anticipation notes (TANs):</u> BOY balance was \$4,000,000, all of which was paid during the year. \$4,400,000 were issued in the current year, leaving an EOY balance of \$4,400,000.</p>	<p>Recognize a liability for TANs payable at year-end.</p>	<p>Recognize an outflow of resources for the repayment of prior-period TANs and related interest in the current period. Recognize an inflow of resources for proceeds from the issuance of TANs in the current period.</p>	<p>Recognize a liability for amounts payable at year-end and normally due within the subsequent operating cycle.</p>	<p>Recognize a liability for amounts payable at year-end.</p>
<p><u>Reported amounts:</u></p>	<p>Payable of \$4,400,000 in Illustration 1. No liability is included in Illustration 2.</p>	<p>No liability is included in Illustration 3. Outflows of resources of \$4,000,000 are included in debt service in Illustration 4A and as net flows of near-term financial resources for long-term activities in Illustration 4B. Inflows of resources of \$4,400,000 are included as an other financing source in Illustration 4A, and in net flows of near-term financial resources for long-term activities in Illustration 4B.</p>	<p>TAN payable of \$4,400,000 in Illustration 5. No amounts are included in Illustrations 6A and 6B.</p>	<p>TAN payable of \$4,400,000 in Illustration 7. No amounts are included in Illustrations 8A and 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Leases (using guidance provided in the Exposure Draft, Leases):</u> BOY liability was a total of \$4,722,553 (\$3,449,085 long-term and \$1,273,468 current). There was a \$233,200 issuance of leases and \$1,273,469 of principal paid during the year, leaving a total EOY liability of \$3,682,284 (\$2,473,900 long-term and \$1,208,384 current).</p>	<p>Lessee recognizes no lease assets or liabilities. Payments made during the period are recognized as outflows of resources in the applicable expenditure function. All other lease payments are recognized as a fund liability when they become due and payable. Entering into a lease as a lessee results in reporting a capital expenditure and an other financing source.</p>	<p>Recognize a liability for principal amounts only when payment is past due. Recognize an outflow of resources for the acquisition of a right-to-use asset and an inflow of resources for the issuance of the lease in the current period.</p>	<p>Recognize a liability and an outflow of resources for lease payments that are payable at year-end and normally due within the subsequent operating cycle. The prior-period liability is reduced when lease payments are made.</p>	<p>A liability would not be recognized for leases because leases are considered capital-related debt.</p>
<p><u>Reported amounts:</u></p>	<p>No liability is included in Illustration 1. Expenditures of \$233,200 are included in capital outlay in Illustration 2. Expenditures of \$1,273,469 are included in debt service in Illustration 2. Inflows of resources of \$233,200 are included in other financing sources in Illustration 2 for leases issued in the current period.</p>	<p>No liability is included in Illustration 3. Outflows of resources of \$233,200 are included in capital outlay in Illustrations 4A and 4B. Outflows of resources of \$1,273,469 are included in debt service in Illustrations 4A and 4B. Inflows of resources of \$233,200 are included in other flows of near-term resources in Illustration 4A, and net flows of near-term resources for long-term activities in Illustration 4B, for leases issued in the current period.</p>	<p>Leases payable of \$1,208,384 in Illustration 5. Outflows of resources of \$1,208,384 are included in other flows of resources in Illustration 6A, and net flows for long-term activities in Illustration 6B, for amounts due within the subsequent operating cycle. Inflows of resources of \$233,200 are included in other flows of short-term financial resources in Illustration 6A, and net flows of short-term financial resources for long-term activities in Illustration 6B, for leases issued in the current period.</p>	<p>No liability is included in Illustration 7. Outflows of resources of \$233,200 are included in capital outlay in Illustrations 8A and 8B. Outflows of resources of \$1,273,469 are included in debt service in Illustrations 8A and 8B. Inflows of resources of \$233,200 are included in other financing sources and uses in Illustration 8A, and net flows of long-term financial resources for long-term activities in Illustration 8B, for leases issued in the current period.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Postemployment benefits (PEB):</u> BOY net liability for pensions was \$485,043 and BOY liability for other postemployment benefits (OPEB) was \$39,750,309. The EOY net liability for pensions was \$826,333 and EOY liability for OPEB was \$42,785,037. Pensions are paid through a funded plan. OPEB is not paid through a funded plan.</p>	<p>Recognize a liability to the extent normally expected to be liquidated with expendable available financial resources. Outflows of resources are recognized for contributions to PEB plans, including amounts paid as the benefits come due.</p>	<p>Recognize a liability for amounts that are due at the end of the reporting period and have not been paid. Outflows of resources are recognized for contributions to PEB plans, including amounts paid as the benefits come due.</p>	<p>For funded plans, recognize a liability for the cumulative excess of the actuarially determined contribution over the amount actually contributed. For pay-as-you-go plans, recognize a liability for the amount that is expected to be paid in the subsequent operating cycle.</p>	<p>Recognize the same amount of net PEB liability, deferred outflows of resources, and deferred inflows of resources related to PEB, and outflows of resources as the economic resources measurement focus.</p>
<p><u>Reported amounts:</u></p>	<p>No liability is included in Illustration 1. Expenditures are recognized and included in the current expenditures by function in Illustration 2.</p>	<p>No liability is included in Illustration 3. Outflows of resources are recognized and included in the current outflows of resources by function in Illustrations 4A and 4B.</p>	<p>Liability for pension benefits of \$1,116,153 and liability for OPEB of \$3,416,452 in Illustration 5. Outflows of resources of \$231,897 that represent the increase in the liability from the prior year are included in the current outflows of resources by function in Illustrations 6A and 6B.</p>	<p>Noncurrent liability for pension benefits of \$826,333, current liability for OPEB of \$3,416,452, noncurrent liability for OPEB of \$39,368,585, deferred outflows of resources of \$2,170,853 (\$41,317 for pensions and \$2,129,536 for OPEB), and deferred inflows of resources of \$1,302,511 (\$24,790 for pensions and \$1,277,721 for OPEB) in Illustration 7. Outflows of resources are included in the current outflows of resources by function in Illustrations 8A and 8B.</p>

<u>Transaction</u>	<u>Current Approach Illustrations 1 and 2</u>	<u>Near-Term Approach Illustrations 3, 4A, and 4B</u>	<u>Short-Term Approach Illustrations 5, 6A, and 6B</u>	<u>Long-Term Approach Illustrations 7, 8A, and 8B</u>
<p><u>Bonds payable:</u> BOY liability was a total of \$33,414,493 (\$25,083,036 long-term and \$8,331,457 due within the next year). Changes during the year included repayment of \$8,331,457 of principal, resulting in an EOY liability of \$25,083,036 (\$20,714,558 long-term and \$4,368,478 current). All bonds are capital debt.</p>	<p>Recognize a liability for principal amounts only when payment is past due. Principal payments are recognized as debt service expenditures.</p>	<p>Recognize a liability for principal amounts only when payment is past due. Principal payments are recognized as outflows of resources for debt service.</p>	<p>Recognize a liability and an outflow of resources for principal amounts that are payable at year-end and normally due within the subsequent operating cycle. The prior-period liability is reduced when principal payments are made.</p>	<p>Recognize a liability for principal amounts of capital-related bonds payable only when payment is past due, and an outflow of resources for principal payments related to those bonds. Recognize a liability for principal amounts of bonds payable that are not capital-related.</p>
<p><u>Reported amounts:</u></p>	<p>No liability is included in Illustration 1. Expenditures of \$8,331,457 are recognized and included in debt service in Illustration 2.</p>	<p>No liability is included in Illustration 3. Outflows of resources of \$8,331,457 are included in debt service in Illustrations 4A and 4B.</p>	<p>Bonds payable of \$4,368,478 in Illustration 5. Outflows of resources of \$4,368,478 are included in outflows related to current portion of long-term debt in other flows of resources in Illustration 6A, and net flows for long-term activities in Illustration 6B.</p>	<p>No liability is included in Illustration 7. Outflows of resources of \$8,331,457 are included in debt service in Illustrations 8A and 8B.</p>