

ELECTRONIC FINANCIAL REPORTING

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WHY IS THIS IMPORTANT?

Ultimate Vision

- The world would be a better place if we had a database of **standardized** government financial statistics based on **audited** financial reports available at **low or no cost**
- XBRL and other standards are simply tools that make such a database more feasible. XBRL is not an end in itself.
- By migrating documents from PDFs to a structured text format like XBRL, we greatly lower the cost of maintaining a public database.



Why is such a database useful?

- Facilitates the work of various stakeholders interested in assessing relative financial condition and performance of US state and local governments
- These stakeholders include:
 - Municipal bond investors
 - Vendors and other creditors
 - Third party credit assessment firms (including NRSROs)
 - State government agencies monitoring local fiscal health
 - Federal government agencies tasked with reviewing single audits
 - Academic researchers and public policy analysts
- This information is important to the general public as well; making it more accessible to intermediaries will raise the public profile of audited financial data



Ratio analysis and credit scoring

- Altman (1968) proposed the Z-score, a composite of financial ratios that could predict corporate default
- Since Altman's work, an industry has developed around public and private firm scoring models
- We have not seen similar developments in the public finance space, in part due to the lack of readily accessible data
- My research has shown that:
 - The ratio of general fund balance to general fund expenditures
 - The ratio of total long-term obligations to total revenue
 - The year-over-year percentage change in total revenue... are good predictors of fiscal distress.



WHERE ARE WE?

Application of XBRL to US Public Finance Lags Compared to Other Sectors

- After the AGA's Oregon paper appeared almost ten years ago, there has been little momentum toward XBRL development and adoption in the US state and local government sector
- GASB's Electronic Financial Reporting project page has not been updated since 2013
- This contrasts with:
 - US Public Companies which are required to file annual and quarterly reports in XBRL format
 - Municipalities in Spain, which submit both budgets and actuals to the national government in XBRL



Lessons from the SEC XBRL Implementation

- The corporate 10-Q/10-K XBRL mandate has received substantial criticism, much of it justifies. It reinforces concerns that:
 - Compliance will be complicated and costly
 - Statement users will be slow to use the reports
- But we can learn from that implementation to provide a better result for the government sector. Key lessons:
 - Keep it simple: SEC XBRL has too many elements
 - Base taxonomy on GASB standards first and then supplement with a review of government financial statements
 - Use iXBRL which allows document to be viewed in a browser
 - Once XBRL is mandated, filers should be relieved of the responsibility to also produce PDF disclosure



Recent Developments

- Northern Illinois University announced an initial CAFR taxonomy in 2016: <http://www.municipalfinance.org/new-tool-to-increase-transparency-in-government-finance-released-by-university-research-center/>
- OpenTech Strategies published a tool that extracts Statement of Activities data from state CAFRs and converts it to XBRL: <https://github.com/OpenTechStrategies/cafr-parsing>
- Neal Snow and Jacqueline Reck and published a peer reviewed paper proposing a 194-element XBRL taxonomy for US local governments: <http://aaajournals.org/doi/10.2308/isys-51373?code=aaan-site>



Demo

- We have created an open source repository on GitHub that contains:
 - A technical implementation of the Snow/Reck taxonomy
 - Sample iXBRL instance document containing seven face financials for the city of Largo, Florida
 - Excel workbook that can generate XBRL and iXBRL from user entries
- These tools have been placed in the public domain and may be freely used by others



What I Ask

- I am hoping you will take three actions based on this presentation:
 1. Update GASB's Electronic Financial Reporting page to reflect recent developments and continue to update it as our work progresses
 2. Ask senior leaders and board members to make public statements endorsing the general idea of electronic financial reporting
 3. Make Electronic Financial Reporting a topic eligible for Gail Crain Research Grants



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