June 18, 2020

Director of Research and Technical Activities, Project No. 3-40
Via email: director@gasb.org

Re: Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and Coronavirus Diseases (Project No. 3-40)

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Proposed GASB Technical Bulletin, Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and Coronavirus Diseases, dated June 9, 2020. We offer the following comments in relation to this document:

1. Question 1: The proposed response to question 1 emphasizes that while the U.S. Treasury has determined that CRF resources “are not grants”, it is important to focus on the substance of the transaction, rather than the legal form of the funding. We agree with this conclusion, and feel that the Board should further emphasize this concept by adding a statement that, since the CRF meets the GAAP definition of a voluntary nonexchange transaction, governments may classify this funding as “intergovernmental revenue”, or even “federal grants” in their financial statements, despite the determination by Treasury this these resources are not “grants”.

2. Question 4: The proposed response to question 4 seems to be based on the notion that the Paycheck Protection Program (PPP) is legally structured as a liability with a guarantee by the SBA. While this reflects the legal form of the program, it seems to violate the economic substance of the underlying transactions. The PPP has always been marketed as a forgivable loan, and many organizations who would otherwise have been unwilling to incur debt (even at an attractive interest rate) applied for the program with the express understanding that they would almost certainly not be expected to repay the amounts received. We note that the uniform loan agreement wording provided by the SBA includes the provisions for forgiveness and clearly indicates that the loans may be forgiven according to the provisions of the CARES Act, “if the Borrower uses all of the loan proceeds for documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities.” By focusing on the economic substance of this program, similar to GASB’s conclusion within question 1 for the CRF, this program seems to also meet the criteria of a voluntary nonexchange transaction; therefore, it is unclear to us why the GASB would elect to treat it differently than the CRF, given this fact.
3. Question 6: The proposed response to question 6 indicates that the "underlying event" being considered for potential reporting as an extraordinary item is the appearance of a coronavirus disease, and that such an event is not "infrequent in occurrence". We respectfully disagree that the underlying event is the virus; the true underlying event was the widespread issuance of shelter-in-place orders, closings of offices and businesses, travel restrictions, and related disruptions. While coronaviruses themselves may not be infrequent in occurrence, the stay-at-home orders is not something this nation has heretofore experienced.

One of the real values of extraordinary events in external financial reporting is the separation of items that might otherwise distort financial trends if included in other functions/programs. For governments wishing to separately report the costs of their COVID-19 response short of an extraordinary item, the GASB might consider offering the option of treating COVID-19 as a discrete function/program in the financial statements.

These comments represent the consensus opinion of the Accounting Standards Committee and have been approved by our Board of Directors. Thank you for your consideration and the opportunity to express our points of view.

Very truly yours,

Kim Garland, President
Michigan Government Finance Officers Association