January 30, 2019

GASB
Director of Research and Technical Activities
Project No. 3-25

Dear Director,

Pottsgrove School District participated in the field test for the Preliminary Views document on Financial Reporting Improvements. I am writing to offer my thoughts on the proposed improvements. My comments are focused in the following areas:

- Consistency in financial reporting
- Clarity of reporting and understandability of statements
- Ease of implementation by preparers of statements
- Differences in opinion on guidance and unintended consequences

I agree that the short-term financial resources measurement focus is an improvement over the current financial resources measurement focus. There is a more logical basis for reporting income and expense and therefore, I expect more consistent financial reporting will be obtained. In order to accomplish this, financial statement preparers will need to be educated on the provisions of the ultimate statement. I believe that more examples of transactions that would be considered short term in nature and those that would be considered long-term in nature would be beneficial to financial statement preparers. The examples could be included in the resulting statement or a related implementation guide.

After gaining a clear understanding of the difference between the short-term financial resources measurement focus and the current financial resources measurement focus, I found the implementation to be relatively easy. Pottsgrove School District is located in Pennsylvania. Pennsylvania may have the most small governmental units in the country. Many of these small governments don't have the luxury of having a CPA on staff to prepare the statements. I am concerned that the implementation may be more difficult for these entities. Once again, I believe education will be the key to resolving this concern.

Financial statement clarity is my biggest concern. Governmental financial statements have become very complex over the years. While they provide valuable information to the financial community, they are very difficult for government leaders to understand and...
use for decision making purposes. I find the statement titles and the headings within the statements to be cumbersome and unnecessarily complex. They are difficult for the lay person to understand. With the inclusion of the note stating that the statements are prepared on a short-term measure focus appearing on the face of the statements and presumably a more detailed definition included in the notes to the financial statements, I feel we can return to more easily understood statement titles and headings. I see no reason why we couldn't return to the use of a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance. If necessary, “Short-Term” could be added to the statement titles. I feel the use of the term “flows” is less understandable than revenue and expenditures.

Finally, in reference to differences in opinion on guidance and unintended consequences, I have 2 issues to discuss. First is the treatment of compensated absences. Guidance received indicated that compensated absences should be treated as a long-term transaction. We have two major components of compensated absences. One is unused vacation days and the other is accumulated sick days that are subject to some level of reimbursement at retirement. Clearly the accumulated sick day component is long-term in nature. However, in our case and I presume for many other governments, vacation is earned in one year and must be taken in the subsequent year or lost. This appears to meet the definition of a short-term transaction. I believe this area needs to be clarified in either the resulting statement or an implementation guide if one is issued.

The second issue is an unintended consequence. Pennsylvania has established fund balance limits for school districts desiring to increase property taxes. For the majority of school districts, if they wish to raise property taxes, their budgeted unassigned fund balance cannot exceed 8% of budgeted expenditures. Pottsgrove’s fund balance is currently approximately 7% of budgeted expenditures. As a result of the field test, we have determined that our fund balance would increase by approximately 52% raising our unassigned fund balance beyond 10%. While nothing changed in our operations, we would no longer be able to raise our property taxes to offset our budget deficit. This scenario could negatively impact the financial stability of governmental units.

In summary, I feel the proposed improvements will be a significant step toward improving comparability in governmental financial reporting. I feel the statements could be simplified and that governments should be given adequate time to plan for the implementation of this standard so that they can address any financial concerns. I sincerely appreciate the opportunity to participate in the field test and to offer these comments.

Respectfully submitted,

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