MEMORANDUM

Date: February 13, 2019

To: Director of Research and Technical Activities
   Governmental Accounting Standards Board

Re: Project No. 3-25
   GASB Preliminary Views – Financial Reporting Model Improvements
   Recognition of Elements of Financial Statements

VIA EMAIL: director@gasb.org

The Colorado Office of the State Auditor (OSA) has reviewed the Governmental Accounting Standards Board (GASB) Preliminary Views (PV), Financial Reporting Model Improvements and Recognition of Elements of Financial Statements. Overall, we appreciate the GASB’s research and guidance on the issues outlined in the preliminary views documents. We have also provided this response to the National Association of State Auditors, Comptrollers and Treasurers (NASACT).

Overall, we agree with the basic conceptual framework outlined in the preliminary views for Recognition of Elements of Financial Statements. It will be helpful however, if the GASB can assist the financial statement preparer by providing examples.

We offer the following comments on the Financial Reporting Model Improvements preliminary views by chapter.

Chapter 2 - Recognition concepts and application for governmental funds
We recognize that the basic revenue and expense recognition didn’t change significantly. However, we are concerned with the change in terminology from “revenues” to “inflows of resources”, and “expenditures” to “outflows of resources”. Changing the terminology leads to confusion and does not enhance the readability and understanding of the financial statements. Typically, the governmental funds statement of revenues is the one statement that is understandable to the lay reader as revenues and expenditures are common terms. Even the most basic financial statement reader understands revenue and expenditures.

We do not agree with the statement provided on page 12, paragraph 33 that changing the terms would provide information to determine whether current-year revenues were sufficient to pay for current-year services. It adds further confusion to discontinue the terms revenues and
expenditures. The change in terminology would further depart from the concept that the statements provide information relevant for evaluating budgetary results, (Page 13, paragraph 39). We do agree overall with the short-term financial resources recognition approach over the long-term perspective described in the invitation to comment.

Chapter 3 - Presentation of governmental fund financial statements

It is redundant and unnecessary to say “short-term” on every heading and subtotal as noted in Illustration 4, Statement of Short-Term Financial Resource Flows. As noted above, changing the terminology adds confusion. The change in terminology is not intuitive to the concepts of revenues and expenditures or inflows and outflows. Deferred inflows and deferred outflows are currently understood as a balance sheet concept. Users of the financial statements will be confused by the use of similar terms for different concepts. The simplest terms of revenues and expenditures are commonly understood by users of the financial statements. Since the implementation of GASB 34, it has been fairly straightforward to explain the difference between the fund statements and the entity-wide statements. Alternatively, we would encourage the GASB to not eliminating the use of the terms Revenues and Expenditures and instead suggest use the sub-heading of “Inflows of Short-Term Financial Resources for Current Activities – Revenues”, and “Outflows of Short-Term Financial Resources for Current Activities – Expenditures.” Another option would be to simplify the sub-titles as, “Inflows of Short-Term Revenues”, and “Outflows of Short-Term Expenditures.” We do not have any issues with the sentence in the header of the statement that reiterates the difference between the fund statements and the government-wide statements.

We disagree with the statement page 17, paragraph 9, the importance of highlighting the recognition differences outweighs the potential for misunderstanding during transition. It’s not just the transition that would be confusing, future financial statement readers would immediately wonder where revenues and expenditures are reported. Same statement, page 18, paragraph 12. The proposed changes to terminology represents a fundamental change that most governing board members will not understand and will create more questions than clarity when presenting financial statements to the lay reader.

Chapter 4 - Presentation of proprietary fund financial statements

This represents a significant change in proprietary fund statement of revenue reporting. As such, it would be helpful to have further explanation for what to do with elements such as transfers between funds. Also, we would suggest the GASB provide guidance to define grants in order to clarify what types of grants are determined to be noncapital subsidies. We agree conceptually with the other categories presented in the statement of revenues that mirrors the cash flow statements. However, it was unclear where pension and OPEB expenses might be classified as part of operating expenses as they do not represent obligations for current operations. We do not agree with the alternative approaches to defining operating activities as outlined in paragraph 5.

Chapter 5 - Budgetary comparison information
We were uncertain if the GASB intends to require budgetary comparison information for all funds for which the government adopts a budget, or keep the current definition of only general fund and major special revenue funds. We do not believe it is necessary to include a variance column between the original and final budgets. It’s obvious to the financial statement reader when there are differences. Further, there could be differences between how governments adopt final budgets that would further confuse comparability. We do agree, however, that it is useful to have the variance column showing the difference between the final budget and actual.

Additionally, we agree with the consistent presentation of requiring that all budgetary comparison statements be included as RSI. As auditing standards do not specifically require auditors to opine on RSI, this should not create an undue burden or add additional costs to the government. We also agree that the inclusion of a budget to GAAP reconciliation is important to add clarification to the financial statement reader.

**Chapter 6 – Other Issues**

Communication of major component unit information:
We agree with the GASB’s proposal to present major component unit information as combining statements in the BFS.

Schedule of government-wide expenses by natural classification:
We have concerns with requiring this for governments that prepare a CAFR. If governments do not currently have the ability to delineate revenues and/or expenditures by natural classification, it could add to the cost of implementation for local governments that have limited funds if there are computer programing changes necessary. If the GASB does not consider this to be required supplementary information, we would recommend that it not be considered supplementary information where it is subject to audit in relation to the financial statements as a whole. By considering it supplementary information, it has the potential to increase audit fees. We would recommend the GASB consider it as other supplementary information and make the inclusion of this schedule optional.

**Chapter 7 – Alternative Views**

Modified definition of short-term financial resources:
We disagree with this alternative view. We do not believe that the accrual of the next year’s debt service payment as described on Page 29, paragraph 7, adds significant value to the financial statement reader. The amounts due within one year can currently found in the long term debt note.

Replacement of concept of normally:
We agree with the alternative view to replace the concept of normally from what is described in Chapter 2. There could be significant professional judgment involved in making that determination. The alternative view would provide for more flexibility for governments to make their own determination depending on the circumstances, rather than a one-size-fits-all approach that may not be applicable in certain instances.
Proposed statement of cash flows:
We do not support the alternative view for cash flows. As stated on page 44, paragraph B25 we appreciate the GASB’s recognition that the perceived value of the cash flow statements does not justify the cost to prepare and audit the information.

Small government considerations:
In Colorado, governments with annual revenues or expenditures that do not exceed $750,000 per year are allowed to request an exemption from audit. Governments are not required to provide GAAP financial statements and instead provide basic financial information in their request and as such, there are already provisions in place for Colorado smaller local governments. We agree with the Board’s consideration that there should not be GAAP specific to smaller governments. However, we do not agree with the board’s statement that once changes to statement and element titles are made in the first year of implementation, they would not have to be made again. While conceptually that is true, the average financial statement user at a smaller local government will not understand removing the terms “revenues” and “expenditures” and that will, therefore, cause continuous explanations year after year.

If you need additional information regarding our comments, please contact Crystal Dorsey via phone at (303) 869-3002 or via email at crystal.dorsey@state.co.us.