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Mr. David R. Bean
Director of Research and Technical Activities
Project Nos. 3-20 and 3-25
Governmental Accounting Standards Board
401 Merrit 7
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Dear Mr. Bean,

On behalf of the Government Finance Officers Association of the United States and Canada (GFOA), we thank the Governmental Accounting Standards Board (GASB) for the opportunity to comment on the two Preliminary View (PV) documents, *Recognition of Elements of Financial Statements*, and *Financial Reporting Model Improvements*. This response was prepared by GFOA's standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR). GFOA acknowledges that we would normally respond separately to each PV; however, given the interrelatedness of the two PVs, we feel one response better reflected our comments on both PVs.

Overall, the fundamental question about the short-term financial resources measurement focus is whether the benefits of "conceptual consistency" outweigh the costs and risks of change. While the adoption will result in the introduction of new terminology, financial statement explanatory language, and the need to build short- and long-term identifiers into the chart of accounts, GFOA feels the substantive effect on overall fund activity and balances appears to be modest. We were hard-pressed to see how this all adds sufficient value as to offset the costs and risks that will be incurred with the change.

GFOA believes that the GASB's concerns regarding the inconsistent reporting of certain transactions under the current financial resources measurement focus, which it seeks to address with the change to the short-term financial resources measurement focus, can be easily fixed with a standard that addresses those inconsistencies. For example, concerns regarding governmental fund reports that do not consistently reflect a shorter time perspective (e.g., long-term receivables, including interfund receivables) may be easily corrected by applying the test of "availability" that is currently used for revenue to all assets, with deferred inflows recognized to offset long-term receivables with outside parties. The inconsistent use of availability periods between, and sometimes within, governments may be easily corrected by establishing a common period of availability, while variations in the reporting of inventories and prepaids are easily standardized as well. The lack of existing guidance to record complex transactions such as derivatives and service concession arrangements can also be easily remedied by developing guidance to address those certain transactions and does not warrant a change to the short-term financial resources measurement focus.

Although we acknowledge that the concepts presented in the Alternative Views appear easier to understand, GFOA opposes the Alternative Views' proposals as presented. The Alternative Views would virtually eliminate comparability between governments in governmental fund reporting, as flows would be determined without a common reference point (i.e., what is normal for all governments). In addition, a perceived consequence of the Alternative Views is the possibility that governments could manage/manipulate their fund balance by accelerating or delaying payments with the agreement of counterparties. For example, years ago a government reached a contractual agreement to pay teachers' salary increases but scheduled the payments of the increases to be made several years in the future to avoid recognizing a fund liability and expenditure in the year the contract was signed (for the retroactive piece). This was one example discussed by the GASB at the time that Interpretation 6 was

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adopted, with the intention of closing this “loophole.” Because salaries are *normally* paid in the period services are provided by employees, the deferral of the recognition of the expenditure based on the deferral of the cash flow became prohibited. GFOA feels the adoption of the Alternative Views’ proposals would reopen the loophole and create incomplete governmental fund financial statements.

The Alternative Views proposes the inclusion of a government-wide statements of cash flows in the basic financial statements and the elimination of fund-level cash flows statements for proprietary funds included in the primary government’s financial statements. GFOA opposes the inclusion of a government-wide statement of cash flows.

Notwithstanding our disagreement with the Alternative Views, we do recognize that the concept of normality is a difficult one, and that many – if not most - governments will have practices (or even legal requirements) that will be deemed by GASB to be contrary to the treatment normally applied by all governments. In fact, being privy mostly to its own practices, governments might have difficulty even recognizing where their practices are divergent from the norm. Therefore, if GASB were to move forward with the proposed recognition and reporting model changes, GASB should not consider adopting such changes until such time as it has promulgated standards identifying what is normal for all kinds of transactions, possibly even distinguishing between types of governments (e.g., what is “normal” for airports may not be “normal” for school districts). Otherwise, it is highly likely that governments (and independent auditors) will expend considerable resources making these judgements, and yet the results may be very inconsistent.

GFOA also offers the following specific comments on the PVs.

Recognition of Elements of Financial Statements

Chapter 2

Paragraph 5.b.

For the “measurability” aspect of recognition, we suggest using the more familiar terminology of an item being “reasonably estimable so as to achieve” as opposed to saying its measurement “sufficiently reflects” the qualitative characteristics of information in financial reporting.

Financial Reporting Model Improvements

Chapter 2

Paragraph 17.d.

GFOA believes that the phrase “that became due during the period” should be revised to include “that became due *before or during* the period”. If still unpaid, all amounts due on long-term debt would seem to remain governmental fund liabilities. (In contrast to the related governmental fund expenditures, which would occur only once in the period in which the amount became due.)

Paragraph 20.d.

GFOA does not agree with the GASB’s proposal to treat all interest costs as outflows in the period of accrual, rather than continuing to match the recognition of interest with the recognition – when due - of the underlying debt when that debt is long-term.

Chapter 3

GFOA notes that the use of the terms “current” and “noncurrent” creates unnecessary confusion, which may result in a misinterpretation of the statement of resource flows. Throughout accounting, current is widely recognized to

refer to assets or liabilities that are expected to be received as cash, used up, or paid within one year of the financial date. Within the PV, the term is used to express whether an inflow/outflow is related to short-term or long-term items. We believe clarity would be increased if the GASB did not create this new definition, but rather presented the resource flows statements as just “inflows”, “outflows”, and for the capital/long-term debt items, “net flow of resources related to capital assets and long-term debt”.

Paragraph 10.

Presenting “short-term” on every reported element when short-term is clearly stated in the title and required text above the statement seems to be redundant and clogs the financial presentation. We recommend reducing the redundancies in the names of these elements.

Chapter 5

Paragraph 3.

We believe the continued devaluation of budgetary reporting by the GASB is a significant disservice to the user community. If consistency of reporting is of paramount importance, budgetary reporting should be reestablished as a required, basic financial statement for those governments and funds that are legally required to operate in accordance with an enacted budget (those deemed essential). The absence of meaningful auditor involvement with budgetary reporting greatly reduces the level of reliance users can place on a government’s legal compliance with its budget.

GFOA recommends clarification that the budgetary comparison information to be included in RSI are for the general fund and each major special revenue fund that has a legally adopted annual budget or equivalent, unless it is the GASB’s intent to include all legally adopted funds, regardless of whether they are consolidated and reported under the remaining aggregate opinion.

Appendix C

Transaction 3.

GFOA notes that the transaction indicates that tax receivables other than property taxes would report \$10 million more in inflows under the short-term approach as compared to the current approach, however, when comparing Illustration 4 revenues to Illustration 2, the revenues/inflows do not reflect the same.

Thank you, again, for the opportunity to comment on these Preliminary Views; we would be happy to respond to any of your questions. Please feel free to contact GFOA’s Director of Technical Services, Michele Mark Levine, by telephone at 312.977.9700 ext. 6101 or email at mlevine@gfoa.org.

Sincerely yours,



Melanie S. Keeton, CPA, Chair
Committee on Accounting, Auditing, and Financial Reporting



Diane B. Allison, CPA, CGFO, Vice-Chair
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