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MAULDIN & JENKINS

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Mr. David R. Bean
Director of Research and Technical Activities
Project 3-25
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We have reviewed the Governmental Accounting Standards Board (GASB) Preliminary Views (PV), *Financial Reporting Model Improvements*, and appreciate the opportunity to provide input as the GASB continues it's standard setting process and deliberates the issues involved with this project. We appreciate the Board's reponsiveness to the comments we provided in our response to the Invitation to Comment (ITC) for this project. We did review this PV in conjunction with the PV, *Recognition of Elements of Financial Statements*, and are providing our comments in one overall letter with the focus on the PV for the Financial Reporting Model improvements.

Recognition Concepts and Application for Governmental Funds

We are supportive of the Short-Term Financial Resources Measurement Focus. As we discussed in our response to the ITC, we believe governmental funds should continue to present information that reflects a shorter-term perspective and that focuses on financial resources. Governments, by nature, were meant to combine its citizens resources in an effort to supply services determined to be for the good of the community which the private sector couldn't (or shouldn't) provide effectively and efficiently (such as public safety, transportation networks, or defense). As a result of this mission, we believe the most significant purpose of the government's financial statements is to show the citizens and legislators how the government spent the resources (primarily taxes) provided that year for these services. Preparing governmental fund financial statements with a shorter term perspective and which focus on financial resources provides information which directly presents how these resources were spent, and how much remain to be spent in subsequent years, in a manner that is easier for legislators and citizens, who often do not have a significant background in accounting, to understand and utilize. While this may not supply investors, creditors, or those looking for a more long-term view of the government's financial position with important information that they need to analyze the government's performance, the longer-term perspective information is presented in the government-wide financial statements.

With this view, our response to the ITC was supportive of the near term perspective, but we did offer some concern about a few aspects of the near-term perspective as it was described in the ITC – including the presentation of Tax Anticipation Notes as well as the potential for management to be able to manipulate financial results based on the timing of certain transactions. Even with those concerns, we were supportive of the near term perspective over the short-term perspective, as presented in the ITC, primarily due to concerns over the complexity added by including the short-term portion of long-term liabilities in to the governmental fund financial statements. As discussed in the PV, we agree that the newly designed short-term financial resources measurement focus merges the best of near-term and short-term perspectives from the ITC and mitigates some of the concerns we had with the near-term perspective while attempting to avoid bringing in the complexities that would have been added with the ITC's version of the short-term perspective.

While we are supportive of the short-term financial resources measurement focus, we do have some concerns related to the determination of what constitutes a short-term transaction versus a long-term transaction based on the judgement involved with (1) determining what represents a class of transaction and (2) determining what is "normal". These concerns are further explained as follows:

1. Class of transaction – under the proposed method, transactions are determined to be short-term or long-term as an entire class of transactions rather than evaluating each individual transaction. The theory underlying this classification does help mitigate the ability of management to manipulate results by arranging one significant transaction in such a way as to differ from what would be considered normal but rather result in management's desired result. Additionally, we believe this method of transaction evaluation, when compared to an alternative view, would provide some relief of effort to preparers and auditors as they would not need to analyze every transaction or specific type of transaction, but would be able to look at classes of transactions more broadly. However, without significant guidance on what constitutes a class of transaction that should be grouped together, we have some concern that the level at which a class of transaction is determined – how high up the scale of similarity do you go – will be different from government to government and impact comparability and consistency.

   For example – are all taxes one class of transaction, or do you separate them among property taxes, sales taxes, and other taxes or do you go deeper into the other taxes (franchise, insurance premium, etc.).

   Another example would be prepaids – many prepaids may be short-term transactions, but what about bond insurance? Bond insurance would normally be a long-term transaction for all governments, but is it its own class of transaction or should it be grouped with all prepaids? How far up or down you go on the scale of similarity could have an impact on the comparability from government to government and could be a judgement determination that differs from person to person as turnover occurs with preparer personnel and/or their auditors.

   Additionally, how should grants be classified? While many operating grants may meet the definition of short-term transactions, many capital grants (maybe smaller in number but often larger in dollar amount) would seem to meet the definition of a long-term transaction.

2. Normally due – under the proposed method, transactions are determined to be short-term or long-term based on whether they are normally due to convert to cash or generate cash (or other financial assets) or require the use of cash (or other financial assets) within 12 months from inception of the transaction. We understand that the Board considers normal to be for all governments in the country. We are concerned that many preparers, and their auditors, may not know what normal is for the entire country. Many preparer's experience and their auditor's experience is limited to one state. What may be normal in one state could significantly differ from what would be normal for other states around the country. Without significant guidance from the Board surrounding what it normal, we have concerns that the differing judgements utilized by the experience of the preparers (and their auditors) will lead to inconsistency among governments as well as restatements in times of turnover of preparers or their auditors.

While we do have the concerns expressed above over some of the determinations that are required, we do believe that some of the concepts that cause these concerns are also the same concepts that make this measurement focus one that provides the shorter term focus that we believe governmental funds should continue to follow. While at the same time these same concepts mitigate the concerns we had with both the short-term and near-term perspectives from the ITC.

We believe the transactions in the appendices of the PV were very helpful in gaining our understanding of the measurement focus presented (as well as other issues). When considering other transactions to address in guidance, in addition to any discussed above, it would be helpful to understand how advances to/from other funds would be classified. It may be the intention of the Board that interfund receivables and payables would cover advances, but we believe a significant distinction should be made between interfund receivables/payables and advances, with the possibility that advances should be considered long-term transactions so that their treatment would be consistent with other long-term receivable or liabilities.

Format of the Resource Flows Statement

We are generally supportive of the proposed presentation of the format of the governmental fund resource flows statement between the current and non-current (long-term) activity. We do believe it is an important distinction when analyzing the results of the governmental funds to be able to understand the differences between activities that are current (more likely recurring) and those activities that are long-term (and not necessarily recurring). One important improvement that the new format makes over the current presentation is the separation of interfund transfers between those that are operating in nature from those that are more capital (or long-term) in nature. This is an important distinction that we often find ourselves making using the detail of interfund transfers in the notes to the financial statements.

We have some concern limiting non-current activity to only those that relate to capital and long-term debt. It seems possible that something considered to be a long-term transaction, such as the purchase of land for redevelopment (that is neither a capital asset nor does it meet the definition of an investment), would seem to be classified in the current section of the resources flows statement as it would not be capital or debt related. Would it be better to separate the resource flows statement using the same classification (short-term versus long-term transaction) as the short-term financial resources measurement focus would seem to dictate?

In considering other example transactions, it would be interesting to see how debt issued for the benefit of another entity would be accounted for. An example would be: due to state law, a County issues debt but passes the proceeds along to a local school district, which is not part of the County's reporting entity, for the school district to construct capital assets that will belong to the school district). In the resource flows statement, is the inflow of resources noncurrent as the proceeds from long-term debt are coming in to the organization, but then the outflow would be a current activity, as it is not being spent on capital assets for the issuer? That may best reflect the substance of that transaction, but would be a good example to consider including in guidance.

Finally, with regard to the use of the terminology of "short-term financial resources" in front of so many different captions on the Balance Sheet and resource flows statement – this seems unnecessary. We agree that this terminology is important, but could probably be limited to the title of the statement and including the explanatory statement regarding the perspective difference from the government-wide statement. Using it on every caption seems very repetitive and adds unnecessary clutter to the statements.

Presentation of Proprietary Fund Financial Statements

We concur with the Board's view that the self-sustaining or subsidized approach for proprietary fund financial statements is the best approach along with and the resulting presentation. This presentation would appear to provide information most stakeholders would need to evaluate the results of the proprietary fund's activity. We do believe additional guidance may be necessary for the definition of a subsidy. Using the definition of subsidies provided, it is difficult to understand how grants are included in both the operating revenue and noncapital subsidy categories in Illustration 5 of the PV.

Budgetary Comparison Information

We concur with the Board's view to require a single method of communicating the budgetary comparison information in the financial statements. We also believe that required supplementary information would be the best categorization of the budgetary comparison based on Concepts Statement 3. We also agree that the variance between the final budget and actual results is a useful inclusion for this statement. We do not believe that a variance column presenting the difference between the original and final budget is necessary and may add additional information to a statement with only marginal benefits, thus distracting from the other information presented.

Communication of Major Component Unit Information

We concur with the Board's decision to limit the options of presentation of major component unit information. We believe this will provide more consistency among governments and utilizing the two options in the financial statements (and excluding the option for inclusion in the notes to the financial statements) would appear to meet the requirements of Concepts Statement 3.

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Schedule of Government-Wide Expenses by Natural Classification

We believe that any breakout of expenses beyond personnel costs versus all other costs will have very limited comparability for the non-personnel costs. These other classifications, supplies, contractual services, etc., will rarely be consistently accounted for within various preparer's financial systems. While the breakout of personnel costs versus non-personnel costs could provide some useful information, the addition of another schedule using different classifications than currently provided would seem to require more effort than the potential benefits are worth.

Alternative Views

As discussed above, we are supportive of the short-term financial resources measurement focus. While the alternative view discussed in Chapter 7 of the PV would mitigate the concerns we expressed above regarding the use of "normal", we believe the alternative view would create larger concerns than the one it would alleviate. We believe the proposed alternative method would allow for management to be able to manipulate reported financial results, through the structure of transactions, more easily than the version of the short-term financial resources measurement focus presented in Chapter 2 of the PV. We also have significant concerns with the inconsistency in recognition of the current portion of long-term liabilities presented in the alternative view. We believe it would be inconsistent, and difficult for readers to understand, why the current portion of bonds or compensated absences would be included as a liability within the governmental funds while the current portion of pension or OPEB liabilities would not. It is our view that inclusion of the current portion of these long-term liabilities would make the governmental fund statements more complicated and harder for non-accountant legislators or citizens to understand. This was discussed in more detail in our comment letter related to the ITC when discussing the short-term perspective presented in that document.

We appreciate the opportunity to provide input into the process you are undertaking in improving the financial reporting model. If we can be of more help in the process, please let us know.

Sincerely,

MAULDIN & JENKINS, LLC

Joel Black

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