Letter of Comment No. 029
File Reference: REC
Date Received: 02/15/2019

MGFOA
MICHIGAN GOVERNMENT
FINANCE OFFICERS ASSOCIATION

February 14, 2019

Director of Research and Technical Activities, Project No. 3-25
director@gasb.org

Re: Preliminary Views
Financial Reporting Model Improvements (Project No. 3-25) &
Recognition of Elements of Financial Statements (Project No. 3-20)

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Preliminary Views of the Governmental Accounting Standards Board on major issues related to Financial Reporting Model Improvements (Project No. 3-25) and Recognition of Elements of Financial Statements (Project No. 3-20), both dated September 12, 2018. We offer the following comments in relation to these documents:

Chapter 2
We generally support the short term financial resources measurement focus along with the recognition concepts outlined in Chapter 2, however we would like to highlight some areas of concern where we see some potential challenges and where we would like some additional clarification.

We understand, as enumerated in paragraph 13 of Chapter 2, that GASB would define entire classes of transactions as either short term or long term. We aren't sure how "classes of transactions" will be defined, whether that is very broad based, as seems to be per the examples in Appendix D, or if there would be main classes that would be further delineated in making the distinction between short and long term transactions. We feel that using a very high level definition of "classes of transactions" could present challenges.

For example, special assessments, at least within the examples in Appendix D, are defined as a long-term transaction, which appears to be appropriate treatment for those special assessments that are capital in nature, and generally 10-20 years in duration. However, many special assessments, at least in Michigan, are operating in nature (ie. rubbish service, weed trimming, etc.) and are assessed and collected annually, more like a property tax. Because they are generally collected within 12 months of the assessment date, the more appropriate accounting treatment for these service type special assessments would be a short term transactions.

Another example relates to long-term debt. Debt principal is defined in Appendix D as a long-term transaction, however, accrued interest within the same appendix is considered short-term. Treating interest differently from principal on the same transaction seems inconsistent. These do not feel like two different classes of transactions to us – just two elements of the same transaction.

Additionally we realize that GASB will not be able to identify every class of transaction and that unusual circumstances will arise, perhaps more frequently than we would like. In order to determine whether a transaction is "normally due" in either the short term or long term, we suggest that GASB create a very strong framework to assist governments in coming to similar conclusions across the board.

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Finally, we do have a concern that the term "normal" could have implications that may dilute the true fund balance for certain governments or as to certain unusual transactions. Measuring transactions using "governments in general" as a measuring stick certainly enables consistency across governments, and might be appropriate in a majority of cases. However, for transactions that significantly diverge from "governments in general", any measurement of fund balance that doesn't take into consideration the potential unusual nature of these transactions may not provide for an accurate measure of fund balance for that government.

ILLUSTRATIONS 3 AND 4

For both Illustrations 3 and 4 we believe using "Short-Term" in the title coupled with the sentence at the top is sufficient to alert the users of the financial statements that these statements are "short-term". We would recommend removing all other references to "short-term" as it makes the statements very wordy and somewhat confusing.

We believe the use of "inflows" and "outflows" in Illustration 4 creates unnecessary confusion to readers of the financial statements who understand and are used to seeing the terms "revenue" and "expenditures". We advocate for leaving the terms "revenue" and "expenditures" in place. Readers of the financial statements will not necessarily fully appreciate the meaning of the terms as defined by GASB (short-term, long-term, inflows, outflows, etc.)

For more clarity in Illustration 4, we suggest changing the title of the bottom section from *Net Flows of Short-Term Financial Resources of Noncurrent Activities* to a simpler title that captures the essence of what is actually being reported in this section. We suggest simply calling it *Capital and Debt Related Activities.*

Chapter 4

We agree with GASB's choice of defining operating activities using the self-sustaining or subsidized approach. However, in reviewing paragraph 3, we weren't able to determine where capital contributions should be presented, as they didn't seem to meet any of the definitions of non-operating, but certainly didn't seem appropriate as an operating revenue. After reviewing illustration 5, we see capital contributions included at the bottom of the flows statement called "Other items". We recommend that the future exposure draft address this more clearly.

ILLUSTRATION 5

In this illustration, grant revenue is included in both operating revenue and as a noncapital subsidy. We would like to see some guidance put forth to assist preparers and auditors about the appropriate classification of grants between the two sections within the flows statement.

Chapter 5

While we agree with the GASB in presenting the budgetary comparison information only in RSI, we do not see a benefit to adding a column on this budgetary schedule showing the variance between the original and amended budget. In fact, we believe doing so would reduce the readability of the schedule; this information is already presented in the MD&A, at least for the general fund.

Chapter 6

We concur with GASB's proposal in paragraph 2 to remove the current option to present major component unit financial statements in the notes to the financial statements.

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ILLUSTRATION 6

We do not believe that the benefit of adding the Schedule Government-Wide Expenses by their Natural Classification exceeds the cost, even if only required when governments prepare a comprehensive annual financial report. We believe it would create significant work for financial statement preparers as their systems are not likely set up to capture this data.

Chapter 7 - Alternative Views

We do believe that paragraphs 10 and 11 of Chapter 7 have some merit, per the discussion above about our concerns with the use of the concept of "normally"; however, we aren't convinced that the concepts outlined here are without their own challenges.

In addition, we do not support the modified definition of short-term financial resources outlined in paragraphs 5-9. Not only do we not agree with extending the measurement focus to one year from the date of the financial statements, we've also identified several examples where this proposed measurement focus would be problematic. For example, for Unlimited Tax General Obligation Bonds, Tax Anticipation Notes, Special Assessment Bonds, and the like, tax revenue of a given year is used to pay the debt service for that same year. By recording a liability for the principal that is due in the following year, but yet presumably not allowing the recording of the property tax revenue, we are no longer matching the expense and the revenue in the same period. Additionally we believe that recognizing compensated absences for future anticipated time off is creating an inflated liability within the governmental funds and should not be recorded.

As we read the alternative views section, we came up with another scenario whereby the proposed measurement focus could be problematic. It appears, based on reading the example in paragraph 13, that we would record a liability in a bond refunding scenario where we have notified our bond holders prior to fiscal year end of our intent to pay-off callable debt even though we have not paid them off as of year-end. Even though it appears we'd have a liability under this scenario, we do not believe this proposed measurement focus would allow us to record a receivable for the proceeds from the bond refunding as that transaction has not yet occurred. This could result in skewed financial statements where it could appear that we have a short-term liability with not enough assets to meet that obligation.

STATEMENT CASH FLOWS

We note that the alternative view proposes a statement of cash flows for the government wide statements. We do not support that proposed statement. We are unsure that this schedule will ultimately provide the value that the GASB might intend be derived from this schedule.

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,

David A. Keenan

David A. Keenan, President
Michigan Government Finance Officers Association