



February 1, 2019

Director of Technical and Research Activities  
Governmental Accounting Standards Board  
RE: Project No. 3-25 and 3-20  
Via email to [director@gasb.org](mailto:director@gasb.org)

The Financial Reporting and Regulatory Response Committee of the Government Finance Officers Association of Texas (“GFOAT”) would like to take this opportunity to respond to GASB’s Preliminary Views on “*Recognition of Elements of Financial Statements*” and “*Financial Reporting Model Improvements.*” The GFOAT is an affiliate the Texas Municipal League, which represents over 1,100 Texas cities and towns. The GFOAT’s over 1,000 members represent all levels of state and local government in Texas. Additionally, GFOAT membership represents associates from the audit profession, the investment community, the underwriting community, and a variety of other private-sector finance professionals.

GFOAT thanks the GASB for the opportunity to respond to the Preliminary Views documents referenced above. Because the two documents are intertwined, we have combined our comments into a single document. Unfortunately, due to prior travel commitments, GFOAT will not be available to participate in the Public Hearings for these Preliminary Views but would be happy to clarify any comments as needed via a future email exchange or conference call.

In the last round of commentary for the Financial Reporting Model, GFOAT provided the opinion “if it isn’t broken, don’t fix it” and continues to believe that the current reporting model is adequate for most users. We continue to express concern that constant updates to accounting standards undermine comparability against a government’s own historical financial statements. Finally, we continue to express concern about the pace of change, an element we started highlighting in September of 2011. The ongoing increase in complexity reduces understanding by citizens and elected officials, increases the chance for error in preparation, and reduces the chances of timeliness. To visualize this struggle, GFOAT has included an appendix showing the number of standards approved by year.

Within the above context, GFOAT provides the following comments on the two Preliminary Views documents:

### **Recognition of Elements of Financial Statements**

GFOAT previously shared the opinion that the near-term approach would be the most appropriate methodology for governmental fund financial statements and has not wavered from that opinion. Without wavering from that stance, we do not have additional comments for this Preliminary Views document.

## Financial Reporting Model Improvements

GFOAT offers the following comments to improve the Preliminary Views as written

- **“Normally”**

GFOAT expresses concern about the concept of “normally” in the context of classifying transaction categories, as what may be normal for a municipality may be completely different for a college or school district. One of the examples given in Appendix C of the Preliminary Views is that of Tax Anticipation Notes. In the example, balances of Notes are considered a short-term transaction because of the way they are typically used to bridge potential cash flows issues that arise when primary revenues are not collected until well into a budget year. We note that this is especially common in the education sector. However, GFOAT has seen municipalities issue Tax Anticipation Notes as medium-term debt borrowing with terms up to seven years, often as a substitute for lease-purchase financing or certificates of obligation. The same instrument can be used for two completely different purposes and having a single treatment may not be appropriate in this example. As such, we share concern about “normally” being the benchmark for transaction classification.

- **Budgetary Comparison Information**

Some GFOAT members feel strongly that they should have the option to have budgetary comparison information presented as an audited financial statement and not relegated to RSI. The governing body provides direct input into a single financial document – the budget. Having the opportunity to share that the budget to actual information was audited, as opposed to just undergoing “certain limited procedures,” is a powerful way to reinforce the relationship between the budget and the annual financial statement. Otherwise, some governing bodies may lose sight of the importance of the financial statement, especially considering its growing complexity.

- **Schedule of Government-Wide Expenses by Natural Classification**

GFOAT does not support a Schedule of Government-Wide Expenses by Natural Classification. The Preliminary Views states that the GASB has concluded that the information is only useful, and not essential. As such, we do not believe that it should be required for preparers of a comprehensive annual financial report to include it, but instead believe that it could be included on a voluntary basis. The example shown for this Schedule does not lend itself to a multi-year presentation, so does not provide enough value to users of financial statements to add another element that must be included in a comprehensive annual financial report in the future. Unless the GASB can find the information is essential, GFOAT does not support placing added burdens on preparers.

- **Accrued Interest on Long-Term Debt**

GFOAT expresses concern about showing accrued interest on long-term debt at the fund level. Although interest is often paid on at least an annual basis, property taxes are usually levied for debt service payments occurring in the fiscal year, not in a future year. As such, recognizing the interest expense for accrued interest while not being able to recognize the resources that

will be used to satisfy the expense creates a disconnect that could lead a user to believe that the government's short-term financial position is substantially lower than it should be. If the GASB keeps this treatment in the short-term approach, GFOAT also suggests that treatment of interest on Capital Appreciation Bonds be clarified.

- **Illustration 4: Statement of Short-Term Financial Resource Flows**

GFOAT expresses concern about splitting transfers for current activities and noncurrent activities without additional GASB guidance. Generally, transfers are operational in nature and lend themselves to be a current activity, so suggest they be shown as a current activity to avoid confusion on the part of the preparer and the user of the financial statements.

- **Illustration 5: Statement of Revenues, Expenses, and Changes in Net Position**

GFOAT does not feel that the proposed format lends additional value and notes that it is harder to follow than the current format in use. We suggest capital contributions be combined with noncapital subsidies and rename the category as "subsidies" or "other items". Also, we note that transfers are not shown in the statement and were not sure where they would be included in this format.

GFOAT thanks you for the opportunity to provide feedback.

Respectfully:  
(submitted via email)

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FRRR Committee Chair  
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APPENDIX  
GASB STANDARD ISSUED BY YEAR

<b>Year</b>	<b>Number of Standards Issued</b>	<b>Cumulative Standards</b>
1984	1	1
1986	4	5
1987	2	7
1988	1	8
1989	2	10
1990	3	13
1991	2	15
1992	1	16
1993	7	23
1994	4	27
1995	2	29
1996	1	30
1997	2	32
1998	1	33
1999	2	35
2000	1	36
2001	2	38
2002	1	39
2003	3	42
2004	4	46
2005	1	47
2006	2	49
2007	3	52
2008	1	53
2009	5	58
2010	4	62
2011	2	64
2012	4	68
2013	3	71
2015	8	79
2016	4	83
2017	4	87
2018	3	90