Letter of Comment No. 042
File Reference: REC
Date Received: 02/15/2019

plante moran

Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

February 12, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Project Nos. 3-20 and 3-25
Governmental Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Bean,

We appreciate the opportunity to comment on the two Preliminary View (PV) documents, *Recognition of Elements of Financial Statements*, and *Financial Reporting Model Improvements*. Because concepts under the PV on *Recognition of Elements of Financial Statements* were excerpted and included in the PV of the Financial Reporting Model, our comments inherently address both PVs, although explicitly we refer only to the Chapters presented in the PV on *Financial Reporting Model Improvements*.

Chapter 2

While we support a measurement focus for governmental fund financial statements that presents a shorter time perspective, and we believe the model outlined here would simplify accounting and increase reporting consistency among governments, overall, we have an underlying concern about the application of the concept "normally", and recognizing transactions for "governments in general". Our main concerns relate to the determination of "governments in general", and whether the resulting measurement of fund balance using this concept really does result in the best measure of fund balance "that is available for spending in the next period" for all governments.

We are concerned about the level at which "normally" is going to be defined and the extent of judgment required to determine the accounting for "governments in general" when a transaction is not predefined by the GASB as either short term or long term. If GASB were to take a very high level perspective in defining transactions as either normally short term or normally long term, it could misrepresent the character of certain transactions. For example, if the GASB defined all special assessments as long-term transactions, it would distort the accounting for service-type assessments that operate more like an annual property tax levy, and are very much "normally" due within one year from inception of the transaction. In addition, we are challenged to believe that the GASB will be able to successfully pre-define all classes of transactions; we do expect to encounter transactions, perhaps even frequently, where judgment will be required to determine how "governments in general" should account for the transaction. This could very easily become problematic for those without a broad understanding of what is done on a national scale and could lead to significant inconsistency in the application of this concept. At a minimum, we suggest that a thorough framework be provided to assist governments and their auditors in evaluating transactions that aren't pre-defined by the GASB.

PRAXITY

Letter of Comment No. 042
File Reference: REC
Date Received: 02/15/2019

Without more guidance on how detailed GASB anticipates defining various classes of transactions as either short term or longer term, it is difficult for us to assess whether the resultant measure of fund balance under the proposed model will result in a reliable measurement. Allowing the opportunity to digest a more fully built out model(s) would significantly enhance our ability to assess the proposal(s).

Chapter 3

Within the proposed short-term financial resources balance sheet in Illustration 3, the use of the phrase "short-term" is redundant and obfuscates the readability of this statement. While we understand the intent of the additional sentence disclosure in the header, we feel this brings accounting policy disclosures into financial statements where they are best left in the existing note disclosures.

Within Illustration 4, we see the benefits of segregating debt and capital related transactions from the remaining inflows and outflows. However, the use of the terminology "current" and "noncurrent" within the proposed flow statement is confusing and, because of the common understanding of those two terms, may also be misleading to a reader of these statements. One could have collections on long term transactions (say notes receivable), appropriately presented in the "current activities" section of this flows statement, since those receipts are not capital or debt related. The juxtaposition of a long term transaction within a section labeled "current" seems illogical. We suggest eliminating the use of "current/noncurrent", and instead, labeling the section at the bottom as "debt service and capital outlay related". Additional guidance on splitting transfers, so they could be appropriately classified on the flows statement, would be helpful in driving consistent reporting of these types of transactions. In addition, we see merit in defining in which section leases and accrued interest should be reported as we could see an argument that they are both capital and debt related and therefore should show up in the bottom section; however, the illustration seems not to include those types of transaction within that section.

Chapter 4

We fully support the self-sustaining or subsidized approach within proprietary fund statements. That said, we do see some proposed challenges with this model for which the GASB may want to provide ample guidance. Determining how to classify grants between an operating grant versus a subsidy likely will prove challenging. In addition, special purpose entities, like airports and healthcare entities, may have unique needs that need to be addressed in order to provide sufficient guidance to ensure all governments are applying these standards similarly.

As we discussed this self-sustaining approach given the proposed definition of a "subsidy", we felt there was a persuasive argument that all exchange, exchange-like and derived tax transactions that didn't otherwise fall into the definition of non-operating (those that aren't a financing transaction, a disposal of capital assets or inventory and not investment income/expenses), would be presented as operating (e.g. would not be a subsidy). In other words, perhaps there is an opportunity to further clarify the classification of operating/non-operating by connecting the categories of exchange/non-exchange transactions to the determination of whether a transaction represents a subsidy, it would make a meaningful improvement in ensuring consistency in the application of the standard. For example, we couldn't think of an example whereby an exchange or exchange-like transaction would be considered anything but operating (would not be a subsidy). On the other hand, we felt that a persuasive argument

Letter of Comment No. 042
File Reference: REC
Date Received: 02/15/2019

could be made that all voluntary non-exchange transactions would likely meet the definition of a subsidy.

Chapter 5

We support the presentation of budgetary comparison schedules only in RSI, however, we oppose the proposed required presentation of an additional column for the variance between the original and final budget. We do not believe the addition of this variance column provides useful information to the reader that they otherwise can't already ascertain from the statements. In addition, the MD&A already requires disclosure of significant variations between original and final budget amounts, at least for the general fund.

Chapter 6

We support the elimination of the option to present major component unit financial statements in the notes to the financial statements. We rarely, if ever, see this presentation chosen by governments. Additionally, we see merit to the presentation of government-wide expenses by natural classification and support its inclusion in the comprehensive annual financial report.

Chapter 7

As a whole, we do not support the alternative view presented in this chapter. We oppose the proposed revisions to the definition of short-term financial resources presented in paragraphs 5-9, as we believe those changes move us further away from a short term measurement of fund balance.

Within paragraphs 10-16, the PV lays out the replacement of the concept "normally". While we are struggling with how the concept of "normally" as presented in Chapter 2 will be applied, until we are provided more information on how the GASB is going to define classes of transactions in this regard, it is difficult to fully make an evaluation. While we see some benefit to determining the accounting based on the specific facts and circumstances of each government, as we believe the resultant measurement of fund balance might be more accurate, we are equally as concerned about the level of judgment that would need to be exercised here, and therefore, believe the result would be a lack of consistency amongst governments in recording similar transactions.

We request that the GASB more fully build out the proposed model presented in Chapter 2 and another model with the modifications proposed in paragraphs 10-16 of Chapter 7 so that respondents have a better understanding of each. Currently, while we are leaning more toward the model outlined in Chapter 2, until better information is made available to enable us to more fully vet the various options, it is difficult to make a well-informed evaluation.

We do not support a government-wide statement of cash flows nor do we support the elimination of the cash flows currently required to be presented for proprietary funds.

Letter of Comment No. 042
File Reference: REC
Date Received: 02/15/2019

Thank you, again, for the opportunity to comment on these Preliminary Views. If you'd like further clarification on our comments, please feel free to contact Michelle Watterworth at 248-223-3520 or michelle.watterworth@plantemoran.com.

Very truly yours,

Plante & Moran, PLLC

Plante & Moran, PLLC.