

February 7, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-25
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Rutgers Center for Governmental Accounting Education and Research (CGAER), kindly accept the following comments on the Governmental Accounting Standard Board's (GASB) Preliminary Views (PV) document, *Financial Reporting Model Improvements*.

We believe that the proposed PV document will be an effective step towards improving governmental financial reporting and would like to submit comments on areas in which we believe the Board should further consider in its deliberations.

Recognition Concepts and Application for Governmental Funds

We had earlier submitted comments on the PV document, *Recognition of Elements of Financial Statements*, where we generally agreed with the short-term financial resources measurement focus, which we believe would provide greater conceptual consistency than the current financial resources measurement focus. However, we feel that the Board should further consider the concept of "normally" as it could lead to unintended interpretation issues as well as adding a degree of complexity for preparers, auditors and users. This concept should be considered to reflect the substance of transactions in light of the associated difficulties in defining what is normal for certain governments. Generally, for the practitioner it would be much easier to comprehend and arrive at how transactions are recorded based for example, on their stated maturities rather than revisiting the transaction to determine its nature and how it may have evolved. For this reason, assets such as notes and long-term receivables that are due within the following fiscal year as well as general and other long-term debt should be recognized in the financial statements.

Presentation of Governmental Fund Financial Statements

The preliminary views of the Board regarding the resource flow statement being presented using the current and non-current activity format is an improvement to the current statement of revenues, expenditures and changes in fund balance. The titles of the proposed "short-term

financial resources balance sheet” and the “statement of short-term financial resource flows” will also help distinguish these statements from the government-wide financial statements. It is important however, that the use of the term “current” and “noncurrent” in these statements be avoided due to the differences in the measurement focus and classification in the balance sheet being currently used in the commercial sector. The label “short-term liabilities, deferred inflows of short-term financial resources, and short-term financial resources fund balance” can however be shortened to reflect that these items are of a short-term nature. Furthermore, the additional explanation at the top of the financial statements which states that the governmental fund financial statement is of a shorter time perspective, should be referenced to a further explanation of the short-term financial resources measurement focus, so as to inform readers about items that would not be recognized under this approach.

Presentation of Proprietary Fund Financial Statements

The presentation of proprietary fund financial statements to recognize subsidies, revenues and expenses related to financing as well as resources from the disposal of capital assets and investment income and expenses with the proposed presentation will make for better readability of these statements. Through the proposed definition of nonoperating revenues and expenses by including the above, the statement of revenues and expenses and changes in net position will further provide granularity, especially for non-capital subsidies. In addition, the operating expenses in their natural or functional form will provide a sufficient level of detail. Overall, the proposed operating financial statement for the proprietary funds will help further inform if and how such self-supporting activities are financed.

Budgetary Comparison Schedule

The PV proposes the budgetary comparison information be presented as required supplementary information (RSI), with an additional variance column being presented to facilitate the review of not only final-budget-to-actual variance but also the original-budget-to-final-budget variance.

We disagree with the proposal of presenting the budgetary comparison information as RSI. This statement is probably the most important statement to taxpayers and other stakeholders in the review of government financial statements. Even though the budgetary basis of accounting could be non-GAAP, this is not an adequate reason for relegating this statement to RSI. The budgetary statement should be presented as part of the basic financial statements. For one of the most important statements presented in the government’s annual financial report to be subjected to limited audit procedures due to its presence in the RSI should be reconsidered by the Board.

Consideration should be given to further expanding the disclosure of variances to include comparison of line items presented on a budgetary basis with amounts shown using the economic resources measurement focus. Despite the current high-level reconciliation between governmental funds financial statements and government-wide financial statements, the reader is unable to determine the differences in actual costs using the two different bases. This issue deals with greater transparency and the ability of the reader to assess interperiod equity. For example, a side-by-side comparison of budgetary actual amounts with corresponding expenses recognized on a full accrual basis and the presentation and the presentation of a corresponding variance will allow the citizens to determine the effectiveness of the budget process. For instance, line items which compare pension or OPEB expenditures with the actual expenses could help

shed further light on these areas for those who might not be able to understand the current high-level reconciliations. We understand that this form of disclosure could generate substantial opposition due to its perceived complexity. However, financial information presented in a manner which clearly connects the two bases of accounting in its simplest form would encourage the citizens and other stakeholders to make meaningful decisions and help achieve the cornerstone of government financial reporting which is accountability, of which a primary aspect is interperiod equity.

Proposed Statement of Cash Flows

The PV considers the merits of requiring a government-wide statement of cash flows as part of the basic financial statements. The argument that such a statement will be complex and difficult to prepare and that it may not be cost-effective or will provide minimal value should be reconsidered. In the absence of the use of a cash-basis of accounting in the governmental funds, we believe that an entity-wide cash flow statement would be useful to both internal and external financial statement users. A columnar format that presents this information for governmental and business-type activities would assist particularly in viewing cash management at an entity level. We also agree that operating activities inflows in the cash flow statement should include tax receipts since outflow of taxes are presented here. Additionally, cash flows of discretely presented component units should be excluded from those of the primary government in the government-wide cash flow statement.

Thank you for this opportunity to share our views with the GASB. We will be pleased to respond to any specific questions regarding our comments and answer any further questions regarding this matter.

Sincerely,



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