



February 8, 2019

RSM US LLP

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## Project No. 3-25

Dear Mr. Bean:

RSM US LLP is pleased to provide feedback on the Preliminary Views, *Financial Reporting Model Improvements*. We understand the objective of this project is to make improvements to key components of the financial reporting model, and the purpose of the improvements is to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability. We appreciate the opportunity to be involved with such an important initiative. Provided below are our comments for your consideration.

### Chapter 2 - Recognition Concepts and Application for Governmental Funds

#### *Short-Term Financial Resources Measurement Focus*

We agree there is a lack of consistency and comparability in financial statements prepared using the current financial resources measurement focus and are generally supportive of the short-term financial resources measurement focus outlined in the Preliminary Views. We offer the following comments as suggestions for further consideration.

Paragraph 11 indicates the recognition concepts would be based on whether items arise from short-term or long-term transactions and other events. Paragraphs 11 a. and 11 b. indicate the evaluation of the transactions should be based on when those transactions "normally are due." While we agree the concept of "normally" will improve consistency, we question whether the guidance in the Preliminary Views adequately defines "normally" or provides the parameters for which "normally" would be applied. For example, differences likely exist in what would be considered "normal" based on where the governments are located. Differences can occur at regional or geographic levels or based on the type of government. The Preliminary Views uses tax anticipation notes as an example of what would be considered short term based on a biased conclusion that these notes "normally" mature in less than 12 months. Based on guidance included in the Preliminary Views we believe a government could conclude that reporting tax anticipation notes as long term is appropriate in a region where it is "normal" and a consistent practice to issue tax anticipation notes with maturities of 13 months or more. Because bias can have a significant impact on the determination of "normal," we recommend the Board provide more specific guidance for the application of the concept of "normal." In addition, we recommend the Board provide guidance for transactions that shift from abnormal to normal given the changing environment.

Paragraph 13 provides that transactions and other events would be considered short term or long term for an entire class of transactions or other events. We recommend providing more detailed guidance regarding what constitutes a class of transactions and the nature of common attributes. One

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might assume that all grants received by a government constitute a class of transactions; however, there are significant differences in the nature of grants, the period of time covered by the grants and when funds are received and earned by the government.

Paragraph 14 refers to governments in general, not an individual government or type of government. This generalization may make it difficult for preparers and auditors who don't have a wide range of experience with multiple types of government entities and therefore won't have sufficient experience to determine what is normal for all governments collectively.

The Preliminary Views provides examples of assets and liabilities that would be recognized in governmental fund financial statements using the short-term financial resources measurement focus; we note that interfund activity has not been addressed. We recommend providing guidance specific to interfund activity. For example, we find that many interfund advances are long-term in nature. Is it the Board's intent to exclude interfund advances from the governmental fund financial statements?

#### **Chapter 4 - Presentation of Proprietary Fund Financial Statements**

The Preliminary Views' definition of nonoperating revenues and expenses includes subsidies received and provided. We agree subsidies should be included in the nonoperating category and agree with the definition of subsidies included within the Preliminary Views. However, we recommend the Board consider providing examples of revenues and expenses that meet this definition to assist with application of the definition across industries (such as governmental hospitals and public higher education institutions). In addition, we noted Illustration 5 in Appendix D to the Preliminary Views presents grant revenues as both operating and noncapital subsidies. We believe it would be helpful to preparers if the guidance was expanded to include an example of when a grant would be considered operating.

We appreciate this opportunity to provide feedback on the Preliminary Views and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Michelle Horaney, Partner - National Professional Standards Group at 563.888.4038 or Brian Schebler, National Director Public Sector Services at 612.455.9913.

Sincerely,

*RSM US LLP*

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