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Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-25
Governmental Accounting Standards Board
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Mr. Bean:

Baker Tilly Virchow Krause, LLP ("Baker Tilly") appreciates the opportunity to respond to the GASB Preliminary Views (PV), Financial Reporting Model Improvements.

Baker Tilly is a large accounting firm with approximately 300 partners and 3,000 team members, and is ranked in the top 15 of American CPA firms. Baker Tilly performs approximately 1,000 audits of governmental entities annually. We have drawn on this experience in preparing our response for your consideration.

Chapter 2: Recognition Concepts and Application for Governmental Funds

We support the short-term financial resources measurement focus. A complementary balance of the long-term perspective of the government-wide financial statements with the short-term perspective of the governmental fund financial statements provides a complete picture of the government's operations and financial position.

The definitions of short-term transactions and long-term transactions are logical from a conceptual standpoint. However, we believe that successful implementation will require significantly more guidance from the Board surrounding the concept of "normally" as included in the definitions. We understand the classification of short-term or long-term will be established for entire classes of transactions rather than individual transactions, and that the Board expects to issue additional authoritative guidance to identify those classes of transactions that should be considered short-term or long-term. We believe this will be a significant and important effort by the Board to achieve consistency among governments and should be as comprehensive as possible. The absence of specific Board guidance will lead to individual governments or auditors applying their own judgment for what they believe to be normal, and that perspective may be influenced by narrow experiences.

Chapter 3: Presentation of Governmental Fund Financial Statements

The current and noncurrent activity format for the resource flows statement, including the classification of capital assets and long-term debt activity as noncurrent, is a useful presentation. We recommend additional clarity in the next due process document related to the criteria for classifying transfers as current or noncurrent.

The repeated use of the terminology "short-term" throughout the illustrative governmental fund financial statements is unnecessary and excessive in our opinion. We believe effective presentation can be accomplished through the use of "short-term" in the title of the statements and the descriptions in the basis of accounting in the notes to the financial statements.

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Chapter 4: Presentation of Proprietary Fund Financial Statements

The definition and approach to identifying operating and nonoperating revenues and expenses is logical and seems straightforward to apply. We also support the presentation and categories of transactions as presented in the illustrative statement. As part of the next due process document for this project, we recommend enhanced clarity surrounding the definition of a subsidy. Examples to further consider include property taxes, various different types of grants, transfers from other funds to cover operational deficits, and activities incidental operations (such as performing work for others).

Chapter 5: Budgetary Comparison Information

We strongly support the presentation of the budgetary comparison information as Required Supplementary Information (RSI) and believe streamlining GAAP to a single method of presentation supports consistency and comparability among governments. The nature of the budgetary comparison information is consistent with the purpose and definition of RSI.

While we support the overall presentation of budgetary comparison information as RSI, we do not agree that the additional column for reporting variances between the original and final budget amounts is necessary. It will add an additional complexity to these schedules that is not essential to the reader.

Chapter 6: Other Issues

Similar to the change to a single method of communication for budgetary comparison information, we also support a single method of communication for major component unit information, and we believe the presentation as a basic financial statement is more appropriate than presentation in the notes to the financial statements.

The schedule of government-wide expenses by natural classification proposed in the PV is unnecessary for a complete understanding of a government's operations. While the additional information may be interesting to some readers, we believe significant efforts would be needed by some governments to enhance their accounting systems to produce information in this format, and the cost of these efforts outweigh the benefits.

Chapter 7: Alternative Views

Overall, we support the concepts of the PV over those introduced in the alternative view. We appreciate and gave consideration to the challenges associated with defining "normal" for governments in general as noted in our comments in chapter 2, and we understand the potential benefits of the alternative view for replacing "normal" with stated contractual maturities or best estimates specific to the government. However, we think the subjectivity involved with "best estimates" will create implementation challenges and inconsistent interpretations. Therefore, we favor the strategy included in the PV of establishing consistent Board guidance to define "normal" over the alternative view.

We are not supportive of a government-wide statement of cash flows because we believe the short-term measurement focus of the governmental funds adequately presents a similar perspective, and the proprietary fund statement of cash flows addresses the user need for a shorter perspective in those funds.

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We appreciate the opportunity to provide comments on this preliminary views document. Should you wish to discuss any of these comments, please contact Heather Acker at heather.acker@bakertilly.com or 608 240 2374.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

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