

February 13, 2019

Director of Research and Technical Activities
Governmental Accounting Standards Board
Via email: director@gasb.org

Re: Project No. 3-25, *Financial Reporting Model Improvements*

We have read and reviewed the *Preliminary Views – Financial Reporting Model Improvements* issued by the Governmental Accounting Standards Board (GASB or the “Board”) and provide the following comments for your consideration.

The Board states that the broad goal of this change in the standards is to “*improve financial reporting by enhancing comparability and understandability in financial reporting by state and local governments.*” Our general comments on the Preliminary Views document are: (1) it needs to be understood that achieving comparability in financial reporting among governments cannot be fully attained due to the wide diversity in the structure and operation of government entities; (2) the changes proposed by the Preliminary Views document may actually decrease the understandability of the financial reporting for intended users such as the citizenry and those charged with governance; and (3) the financial statements will be further differentiated from the budgetary reporting used by most governments, increasing the risk that accountability will be negatively impacted. Additionally, we ask the Board to consider that additional information requested by analysts and others could be presented as Required Supplementary Information (RSI) or Supplementary Information (SI) without creating financial statements that are dramatically divergent from the budgetary basis of accounting.

Chapter 1 – Objectives, Background, Applicability and Scope

In *Considerations Related to Benefits and Costs*, it is stated “the Board strives to determine that its standards address a significant user need.” We respectfully request the Board consider that the identified “significant user need” may be applicable to relatively few governments rather than the majority. Accordingly, the costs associated with implementing significant changes to the financial reporting model may be disproportionate for smaller, less complex governments.

Chapter 2 – Recognition Concepts and Application for Governmental Funds

With regards to the short-term financial resources measurement focus, we support the definition of “short-term financial resources” as described in the Alternative Views presented in Chapter 7 using the measurement of one-year from the date of the financial statements (rather than from the date of the transaction). We find this definition to be less cumbersome than the definition in Chapter 2, which will lend itself to more consistent application by governments and auditors. Preparers and users of government financial statements largely see the term “short-term” as synonymous with the term “current.” To define “short-term” with a one year timeframe that is already the common standard for defining “current” is easily understood and more measurable

Director of Research and Technical Activities
Governmental Accounting Standards Board
February 13, 2019
Page 2

Paragraph 10 identifies items to be reported as an element of the financial statements. If the goal of the proposed standard is to improve comparability, then the use of “qualitative characteristics,” which introduces judgment by the preparer and the auditor, will likely have the opposite effect by creating further lack of comparability.

The recognition concepts introduced in paragraph 11 provide further subjectivity in the introduction of the phrase “normally are due,” which can differ by state due to uniqueness in legislation. We, again, concur with the Alternative Views presented in Chapter 7 in the definition of “normal.” Items should be defined as “short-term” or “long-term” based on the facts and circumstances of the individual transaction rather than by the entire class of transactions. This allows the preparers to apply the concept of “substance over form” to ensure that financial reporting is not obfuscated when unique transactions do not fall neatly into parameters set out in the standards.

In the examples presented in paragraphs 15 through 24 of this chapter, the proposed accounting treatment is unclear for transactions in which cash is expended for:

- Notes and other long-term receivables (Example 16a)
- Prepayments for goods and services (Example 21a)

Further, the proposed treatment of interest accruing during the period on borrowings (Example 20d) is not a budgeted item and will create an additional reconciling item on budgetary statements. The underlying foundation to the decision-making process of a government is its budget – from setting millage rates to making personnel decisions. Regardless of changes made to the financial reporting model of the fund financial statements, most governments will not be changing the way they budget.

Chapter 3 – Presentation of Governmental Fund Financial Statements

We do not agree that changes to the titles of the financial statements will provide the users of the financial statements additional clarification. The financial statement titles currently in use are accepted by the users of the financial statements and do not require additional clarification or modification. Any differences between the government-wide statements and the fund level statements can be easily described in the Management’s Discussion and Analysis and in the notes to the financial statements.

Further, the additional explanatory language proposed by the Board in paragraph 13 of this chapter should be presented at the bottom of the page rather than being presented at the top of the financial statements.

Chapter 4 – Presentation of Proprietary Fund Financial Statements

The Board’s definition of “nonoperating revenues and expenses” does not take into account the substance of the transaction. For example, interest expense on a line of credit used to fund the operations of the government would more appropriately be classified as an operating expense. Additionally, the PV presents examples of nonoperating revenues and expenses to include “subsidies received and provided.” However, some subsidies – such as a utility fund providing the General Fund with monies in lieu of taxes – would lend itself to presentation as an operating revenue in the General Fund and an operating expense in the utility fund. This would also provide for accounting treatment consistent with how a noncapital subsidy would be presented in a proprietary fund (paragraph 7).

In paragraph 3 of this chapter, the subsidies referenced in (a) should be labeled as “capital” subsidies to distinguish these subsidies from those that would be included in the subtotal “operating income (loss) and noncapital subsidies” described in paragraph 7 of this chapter.

Director of Research and Technical Activities

Governmental Accounting Standards Board
February 13, 2019
Page 3

Chapter 5 – Budgetary Comparison Information

We respectfully disagree with the Board’s proposal for the budgetary statements to include presentation of variances between the original and final budget amounts as part of the budgetary comparison schedule. The original and final budget amounts are already being presented on the schedule. The addition of a variance column does not provide meaningful information with regards to evaluation of budgetary management or with statutory compliance.

Chapter 6 – Other Issues

We accept the Board’s preliminary view of presenting major component unit information as combining financial statements to be presented as part of the government’s basic financial statements after the fund financial statements.

We respectfully request the Board revisit and reconsider the introduction of a schedule of natural classification of government-wide statements by function or program for governmental activities and by different identifiable activity for business-type activities. This information is irrelevant for accountability and the costs associated with generating this additional information would greatly outweigh the benefits, especially when taking into account this information is currently presented in multiple formats throughout the report.

Chapter 7 – Alternative Views

As noted above, we support the definition of short-term financial resources presented in paragraphs 5 through 9 of this chapter. We further support the replacement of the concept of “normally” as presented in paragraphs 10 through 16 of this chapter.

We do, however, disagree with the need to introduce a statement of cash flows for governmental funds. The fundamental management tool for a government fund is a budget, while proprietary funds are managed through the use of cash flow schedules. The Board has not demonstrated the added benefit to including a statement of cash flows for governmental activities. Additionally, the short-term resources financial reporting model closely resembles cash flow and essentially provides the same information to the users of the financial statements.

The Board should also consider that, by moving the statement of cash flows to the government-wide level, the financial statements will lose the granularity of the cash flows presented by each proprietary fund included in the current financial reporting model.

Your consideration of our comments in this letter would be greatly appreciated.

Sincerely,



Yvonne Clayborne, Chair
Florida Institute of CPAs
State and Local Government Committee