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Letter of Comment No. 042

File Reference: FR2

Date Received: 02/13/2019

Doug A. Ringler, CPA, CIA
Auditor General

February 13, 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:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board's preliminary views (PV) on issues related to *Financial Reporting Model Improvements*. We support the Board's efforts to develop a conceptually sound foundation for governmental funds and we look forward to the consistent application of a short term perspective among governments. We have organized our comments as responses to each of the board's preliminary views.

GASB: The Board's preliminary view is that the financial statements for governmental funds should be presented applying the short-term financial resources measurement focus. The short-term financial resources measurement focus should be defined as a measurement focus that incorporates elements of financial statements arising from short-term transactions and other events as they *occur* and elements of financial statements arising from long-term transactions and other events when payments *are due*.

Based on the reasoning and examples presented in Chapter 7, paragraphs 1-16, we support the alternative view of adopting a modified definition of short-term financial resources and replacing the concept of "normally" with stated or contractual maturities of financial assets and liabilities or, in the absence of such detail, the best estimate of periods of receipt or payment. We are concerned that the term "normally" is too subjective and open to wide interpretation, which will detract from the board's goal of enhancing comparability of financial statements. We consider use of stated or contractual maturities as easily understood by preparers and verifiable by auditors. In the absence of stated or contractual maturities, usage of the best estimate of periods of receipt or payment is something that can be monitored and improved upon over time. When presented with the examples in paragraphs 13 and 14 of Chapter 7, we consider the alternative's view of recognizing these events in the current period as the preferred way of assessing how much fund balance will be available for spending in the next period.

GASB: The Board's preliminary view is that in financial statements presented applying the short-term financial resources measurement focus, an item should be recognized and, therefore, reported as an element of the financial statements if it meets both of the following criteria:

- a. **The item meets the definition of an element (as set forth in Concepts Statement 4, *Elements of Financial Statements*) within the context of the short-term measurement focus in paragraphs 11-14, 19, 22, 25, 26 and 28 of this chapter.**
- b. **The measurement of the item sufficiently reflects the qualitative characteristics of information in financial reporting, subject to the limitations of financial reporting, described in Concepts Statement 1, *Objectives of Financial Reporting*.**

We agree with the adoption of item b. as stated above. We also agree that an item must also meet the definition of an element as set forth in Concepts Statement 4; however, we would amend item a. to incorporate the alternative view's modified definition of short-term measurement focus and replacing the concept of "normally" as outlined in the alternative view in Chapter 7.

GASB: The Board's preliminary view is that the resource flows statement should be presented using the *current and noncurrent (long-term) activity* format.

We agree with the Board's view that the resource flows statement should be presented using a current and noncurrent (long-term) activity format. We consider this view as easily adopted among preparers and understood among users of the financial statements.

GASB: The Board's preliminary view is that the governmental fund balance sheet should be titled the "Short-Term Financial Resources Balance Sheet" and that the governmental fund resource flows statement should be titled the "Statement of Short-Term Financial Resource Flows."

We agree with the Board's preliminary views that the governmental fund balance sheet should have the title as noted above. This would appropriately alert users that this statement was developed using a different measurement focus than the government-wide financial statement and the current resources measurement focus previously used.

GASB: The Board's preliminary view is that the elements reported in the governmental fund financial statements should be titled "short-term assets, deferred outflows of short-term financial resources, short-term liabilities, deferred inflows of short-term financial resources, short-term financial resources fund balances, inflows of short-term financial resources for current activities, outflows of short-term financial resources for current activities, and net flows of short-term financial resources for noncurrent activities."

We agree that users must be appropriately alerted to the short term nature of the balance sheet and the resource flows statements and have agreed with the immediately preceding view to modify the statement titles accordingly. However, the continued use of "Short-term" on the specific line items noted above seems excessive. If the following preliminary view is not adopted, perhaps a footer that specifically points readers to Note 1 for a description of the basis of accounting used to create the statements would be a better alternative than repeated use of "short-term" on the line items.

GASB: The Board's preliminary view is that the following additional explanation should be included at the top of the short-term financial resources balance sheet and the statement of short-term financial resource flows:

"This financial statement presents a short-term view of governmental fund activities and reports items of a long-term nature differently from how they are reported in the government-wide financial statements."

We agree with the Board's preliminary view to include the additional explanation noted above since we agree that users must be properly alerted to the differing nature of the governmental fund balance sheet and resource flows statement. Although the detailed nature of the differences should be made clear in the summary of significant accounting policies, the statement above will alert users that these statements were prepared differently from the government-wide statements.

GASB: The Board's preliminary view is that operating revenues and expenses should be defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses include (a) subsidies received and provided, (b) revenues and expenses related to financing, (c) resources from the disposal of capital assets and inventory, and (d) investment income and expenses.

We agree with the definition of operating and nonoperating revenues and expenses. We agree that there is a need to consistently apply these terms and the definitions provided should enhance the comparability of information among governments.

GASB: The Board's preliminary view is that, in addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, a subtotal for operating income (loss) and noncapital subsidies should be presented before reporting other nonoperating revenues and expenses. The Board's preliminary view is that subsidies should be defined as resources provided by another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided.

We agree with the Board's preliminary view to incorporate a new subtotal on the statement of revenues, expenses, and changes in fund net position. We agree that inclusion of noncapital subsidies will be informative to users and will aid in the determination of whether an entity is self-supporting.

GASB: The Board's preliminary view is that a government should be required to present budgetary comparison information using a single method of communication, and it should be reported as RSI.

We agree that budgetary comparison information should be reported only as RSI. We would not consider budgetary information as part of the basic financial statements and RSI is an appropriate requirement to ensure governments provide this information to interested parties.

GASB: The Board's preliminary view is that a government should be required to present the variances between (a) final budget and actual amounts and (b) original and final budget amounts as part of the budgetary comparison schedule.

We consider the final budget to actual variance as the most important variance and in the interests of brevity we would not consider the original budget to final budget variance as necessary.

GASB: The Board's preliminary view is that if it is not feasible to present major component unit financial statements in a separate column(s) in the reporting entity's statement of net position and statement of activities, the financial statements of the major component units should be presented in the reporting entity's basic financial statements as combining financial statements after the fund financial statements.

We agree with the Board's preliminary views to require presentation of major component units in a combining financial statement after the fund financial statements when it is not feasible to present them on the same page as the primary government. We agree with the eliminating the option to present these component units in the notes to the financial statements as users should expect to find this information in the body of the financial statements. The use of a combining financial statement for major component units will be necessary for large governments such as states.

GASB: The Board's preliminary view is that state and local governmental entities that present a comprehensive annual financial report should present a schedule of natural classification of government-wide expenses by function or program for governmental activities and by different identifiable activity for business-type activities.

We agree with the Board's preliminary views to present government-wide expenses by natural classification and by a different identifiable activity for business-type activities. We consider this consistent with existing practice and have no objections to this requirement.

GASB: The Board's preliminary view is that state and local governmental entities that prepare a comprehensive annual financial report should include a schedule of government-wide expenses by natural classification as supplementary information.

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We agree with the Board's preliminary views to require a summary of government-wide expenses by natural classification. We would expect the Board to also establish the number of years' presentation required, to provide for consistent application by preparers. Such a schedule would provide users a longer-term view of the government's expenses.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, slightly slanted style.

Doug Ringler
Auditor General

cc: C. Murray, CPA, CIA

Via e-mail