



February 13, 2019

Via electronic mail

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

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

Thank you for the opportunity to comment on the Governmental Accounting Standards Board's (GASB) Financial Reporting Model Improvements, Project No. 3-25. The Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates GASB's continual efforts to listen to the feedback of preparers and interested stakeholders to provide consistent and relevant financial reporting for our governmental agencies.

The option set forth in these preliminary views (PV) is the best of the three options proposed in the Invitation to Comment. Our comments on this PV are focused on three overarching points:

- Clarity of reporting so that the statements are easily understood by users
- Reduced complexity
- Ease of implementation to reduce the government's dependence on their outside auditor especially given the increased independence focus of the new Yellow Book

Chapter 2

- We agree that including certain assets, like long-term receivables in the governmental fund statements, is inconsistent and confusing given the general short-term nature of the governmental fund statements.
- We agree that comparability is reduced due to the lack of consistency depending on whether a government has adopted a 60-day or longer period of availability. Paragraph 11 which defines a uniform period of one year for all governments addresses this issue.
- We do have concerns as to how this change could add to fund balance in specific governments. This can lead to financial consequences and confusion among users.
- Specific examples were provided by one of our members who is a finance director at a school district:
 - *The first is that we received guidance that compensated absences will always be treated as a long-term transaction. While I agree with any accumulated sick pay accruals, I don't necessarily agree with vacation accruals. In our District and probably many governments, vacation days cannot be stockpiled. They must be used by the end of the next fiscal year. This seems to make it a short-term transaction.*

- *The other issue is the impact that these changes will have on local governments. Our General Fund Balance will increase by approximately \$2.9 million. This represents an increase of approximately 52% of our undesignated fund balance. The most significant changes related to the accrual of property taxes and EIT on our fund level statements. While this may simply make many local governments look more financially stable, it poses challenges for school districts. The state has established a fund balance threshold over which you are not permitted to raise property taxes. While nothing has changed in our operations, our school district would be over this threshold and unable to raise taxes necessary to cover our expenditures. Ultimately, this will negatively impact our financial stability.*

Chapter 3

- We felt that the use of the word short-term in every title and heading was repetitive and unnecessary. The long descriptions detracted from the actual titles and added to the confusion of the statements. The memo at the top of the statement is sufficient. We prefer retaining the original terms-balance sheet and statement of revenues and expenditures.
- We had mixed opinions within our own group as to whether separating transfers in and transfers out between short-term and long-term activities added complexity to the statements or added clarity.

Chapter 4

- Changing the title from “revenues and expenses” to “revenues and expenses other than nonoperating revenues and expenses” is unnecessarily lengthy and unnecessary in general. Financial statement titles should be as brief as possible for ease of reading, understandability, and clarity.
- We agree that adding subtotals increases the clarity of the information communicated to the user.

Chapter 5

- We agree that the budgetary comparison reporting guidance should be more prescribed and less optional.
 - We agree that budgetary comparison reporting should be RSI and not part of the basic statements.
 - We agree that a variance column should be shown for final budget compared to actual.
 - We agree that a variance column should be shown for original budget compared to final budget.
 - For added clarity we recommend:
 - Using designations for Original Budget (A) Final Budget (B) Variance (B-A); Actual (C) Variance (B-C) so that users can clearly see what the variance column represents.
 - When the original budget has not been modified the original column and the variance between original and final can be eliminated.

Chapter 6

- The PV has worked to eliminate options to enhance consistency. The use of “not feasible” in Chapter 6, Paragraph 2, opens up the issues that this PV is seeking to solve.
 - If there are too many major component units to present on the statements of net position and activities, then one column on the statements that condenses the major component units

into one column will suffice. As a result, a combining statement of the major component units can be included.

- The combining statement seems best placed immediately after the statement to which it is referring.
- The comprehensive annual report is overseen by the GFOA. So, we do not agree with CAFR guidance provided by GASB.

Appendix B

- We appreciate the thoughtful depth of the GASB considerations.
- As PICPA representatives, we probably represent the one of two states with the smallest governments that this standard will affect. Most of these governments do not have CPAs on staff; Board Members are small business owners or involved community members. As the auditors of these small governments, we seek statements that are clear, consistent and easy to explain to the users. We are concerned that the growing length of the entire financial statement and the increased amount of verbiage on individual statements detracts from the usability of the statement. Just because issues are complex, doesn't mean the reporting needs to be complex. We urge GASB to keep simplification, clarity and understandability a priority.

Once again, on behalf of the PICPA, we would like to thank the GASB for its efforts in preparing this Invitation to Comment and for the opportunity to offer comments. Please feel free to contact us if you have any questions.

Respectfully submitted,



Cynthia Bergvall, CPA, Chair
PICPA GASB Subcommittee
Committee on Local Auditing and Accounting