

From: Barrett Peterson, C.P.A.
To: GASB Director director@gasb.org
Subject: Project No. 3-25

February 13, 2019

Dear Director Bean:

Thank you for the opportunity to comment on the *Preliminary View of the Governmental Accounting Standards Board on major issues related to **Financial Reporting Model Improvements***.

I am an interested citizen in Illinois, a tax payer, an individual with experience auditing the financial reporting for public schools in Chicago and Evanston with Arthur Andersen, and a School Board for more than 12 years in a District with a current tax supported budget of approximately \$85 million. My career in private industry has included large company audits and late entity financial reporting, among other aspects.

The Board's Preliminary Views continue to provide far too much credence to today's financial reporting practices, which need significant improvement. I believe the goals of improvements to the public entity Financial reporting Model should include:

- A comprehensive view of all obligations incurred, applying full accrual accounting standards;
- A complete view of the amount and variability of sustainable revenue inflows from tax and other recurring sources and the continuing costs incurred on a full accrual basis regardless of when paid, that those resources must support;
- A "classified" view of actual cash inflows and outflows from recurring operations, from unusual transactions such as asset sales, and from financing type activities, including debt issuance, sale and leaseback transactions and derivative or option transactions;
- A view into the "financial risk profile" of the entity resulting from both unbalanced operations and levels of debts and other obligations such as pension and OPEB obligations, as well as repurchase and similar obligations;
- A primary focus on economic resources and obligations arising in a reporting period, rather than a focus on a "budgetary" perspective.

To accomplish the goals that I have proposed should be paramount, I suggest the Board consider applying its Entity-Wide Accounting and Financial Reporting guidance as the basis for financial reporting by all Governmental Funds/units making the Entity level reporting essentially Consolidated Financial Reporting. Meaningful disclosures comprising entity-wide guidance should be applied to all the funds/units of the entity as appropriate to the fund/unit's operations. The primary financial reports for all Governmental Funds/units, as well as the Entity as a whole, should be comprised of:

- A Statement of Financial Position prepared on a full accrual basis which reflects all obligations incurred, whether or not paid, including payables, pensions, and OPEB and other obligations payable in future periods;
- An “Income Statement”, also on a full accrual basis, which reflects all receipts and obligations incurred during the period, regardless of consideration of “budget period”;
- A Cash Flow Statement similar to the current concept of budget reporting reflecting all anticipated receipts and cash outlays. This Statement should be “classified” in a manner analogous to the “operations”, “investing”, and “financing” currently employed in private entity financial reporting. This statement would give a comprehensive view of cash activity, including its variability. This suggestion is consistent with the alternative view advocated on page 31 of the Preliminary Views, and like the Resource Flows Statement discussed on page 16 of the Preliminary Views
- A Statement of Changes in Net Position [“Equity” or “Fund Balance”] of the fund/unit.

I do not believe the concept of a Short-Term Financial Resources Measurement Focus is helpful. The concept continues a practice of “cash based” financial reporting that has long made public entity reporting opaque and periodically misleading. Further improvement can be aided by returning to “prepaids”, “deferred charges”, “deferred revenue” and similar terminology in place of deferred inflows and outflows which are difficult to understand and confusing, and reflects a “budgetary perspective”.

I encourage the Board to consider a full accrual-based system of financial reporting for all levels of Governmental Reporting in its pending re-deliberations.

Thank you,

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