

Comments on PV

Recognition of Elements of Financial Statements

As the complexity and nuanced meaning of GASB's formal guidance increase with the intent of promoting reporting consistency and accuracy, one could argue there is increased risk of variation and quality of professional judgement, and therefore an increased risk of inconsistency and inaccuracy...particularly over a few years as changes are fully implemented.

When you project past the time of implementation related to the future impact of the proposed changes, how different will practical impacts of proposed changes be as compared to current practices that would incorporate mainly targeted modifications based on constituent feedback?

Is the cost of this proposed change worth the benefit? Will the proposed changes result in "real-life" changes in practice that will be useful to decision makers and other users of GASB-based financial information? It seems that to justify making the proposed changes, the benefits of making them need to be obvious and supportable.

Chapter 1, Objectives, Background, and Hierarchy of Recognition, Paragraph 14

"Comparability of information among governments is reduced when governments do not use the same period of availability for revenue recognition."

Each government has different revenue structures, different revenue settlement dates, and different fiscal year ends. Because of these differences, appropriate accrual periods will vary. In our opinion, the governmental accounting and reporting environment necessitates that each reporting entity be allowed reasonable flexibility, based on its fiscal year end, to define "measurable and available" when establishing appropriate accrual periods, within a short-term focus.

Regardless of the date of a government entity's fiscal year end, they all have December 31 tax year ends and April 15 tax settlement dates for individual income taxes.

For those with a June 30 fiscal year end, the tax transactions for the first six months of their fiscal year are settled primarily by April 15 of the same fiscal year. However, transactions for the second six months of the fiscal year are settled 10 to 16 months after transaction date, which could extend more than 12 months after FYE.

In contrast, a government with a fiscal year ending December 31 would match the December 31 tax year end. In that case the complexity of this accrual would be much lower because of that government's ability to settle over-collections and under-collections within no more than 10 months (allowing for October 15 extended returns) following its December 31 fiscal year end.

Going forward GASB should provide additional guidance, possibly in a Q&A format, to give more specific direction for revenue transactions related to individual income tax accruals. These accruals can be significant for state governments and municipal governments with income taxing authority.

Chapter 4, Alternative Views, Paragraph 11 and 12

Normally appears to be a substitute for "generally". "Generally" has been adequate to date from our experience. "Generally" works well with "generally accepted". Additional guidance might be useful to clarify. It is not clear as to why "normally" is a necessary qualifier. What issue is GASB trying to impact with this newly emphasized wording? What weakness in accounting or reporting has occurred that GASB is trying to address with "normally"?

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Financial Reporting Model Improvements

Chapter 2, Recognition Concepts and Application for Governmental Funds, Paragraph 6

“Comparability of information among governments is reduced when governments do not use the same period of availability for revenue recognition.”

The character and structure of revenue is different from government to government and in the case of individual income tax, one of our largest accruals, the tax year deadlines of December 31 and April 15 do not coincide with our FYE.

For individual income tax, June 30 FYE governments typically hold cash at June 30 that is due back to taxpayers generally by the end of the following April 15 (or six months later for extended returns). The length of time from transaction date to the following June 30, could be up to 18 months. Accordingly, this length of time needed to settle some income tax refund liabilities -- of up to 18 months after transaction date -- necessitates accruing under-collected income taxes as a tax receivable to reflect their *“availability” to fund the 18-month-old liabilities.*

Governments do not capture withholding payments by transaction date as cited in the PV. Governments capture individual income tax withholdings on each employer’s reporting dates for employer-defined payroll periods during a tax year. Furthermore, some employers disburse payrolls in advance to some employees, others disburse them in arrears, and still others disburse them in advance for some employees and in arrears for others within a payroll period. Governments do not capture transaction dates from employers. They depend on employers to capture transaction dates and then submit, generally by payroll period, the accumulated income tax withholdings from employees.

Chapter 2, Recognition Concepts and Application for Governmental Funds, Paragraphs 11 a. and b.

It is unclear what “or other event” is intended to reference in 11 a. and 11 b. We propose changing the PV language to replace the phrase “from the inception of the transaction or other event” with the phrase “from the end of the fiscal year.”

Chapter 3, Presentation of Governmental Fund Financial Statements

The proposed new statement and element titles are far too cumbersome and “wordy” for practical use. Typical users of government financial statements possess a workable knowledge of governmental accounting and reporting thereby rendering the verbose nature of the proposed new statement and element titles unnecessary.

Chapter 6, Other Issues

The proposed **Schedule of Government-Wide Expenses by Natural Classification** would create the most significant logistical challenges and would likely be costlier to implement than would any of the new proposed requirements. Any meaningful benefits it might provide are dubious.

The schedule would require substantial training to be conducted for very limited-skilled accountants in agencies across state government, significant reprogramming of our accounting system, major expanding of our chart of accounts, more year end time and effort manually spreading within the schedule our closing and audit adjustments that we now record only at a very high level, and additional audit time.