GFOA also offers the following specific comments on the EDs.

<u>Financial Reporting Model Improvements</u>

MD&A

Paragraph 8.a.

In order to provide a better overview of the government, we recommend the MD&A provide only a high level summary of the measurement focuses and bases of accounting with a reference to the summary of significant accounting policies.

Paragraph 8.c.(1)

The GFOA is in agreement that governments should provide the analysis on the items described in this proposed paragraph. Through our Certificate of Achievement for Excellence in Financial Reporting Program we are aware that governments do not provide the type of analysis intended, namely, focusing on *why* something happened, not just the amount. We recommend that more guidance and examples of what constitutes the type of analysis be included. Specifically, the language might clarify that not only are amounts and percentages of changes inadequate, but by providing more detail on changes, alone, is also inadequate (e.g., explaining an increase in overall property tax revenue by indicating the amounts attributable to different property classes, rather than by saying that assessed values increased as a result of a comprehensive reassessment initiative that updated market values).

Paragraph 8.c.(2)

In order to avoid governments from focusing on individual nonmajor funds, we recommend that the first sentence of this paragraph be modified to reflect that only nonmajor fund balances and transactions that were significant to the government as a whole be included in the analysis.

Unusual or Infrequent Items

Paragraph 9.

With the elimination of requiring an item to be unusual *and* infrequent, the possibility of governments reporting items that would not qualify as unusual or infrequent increases. To help governments report the proper items in this line item, we recommend that more guidance be provided in this proposed standard or a future implementation guide.

In GASB's response to question 6 of Technical Bulletin 2020-1, governments' discretion to report COVID-19 related outflows as extraordinary items was taken away. We recommend that the Board allow more latitude to governments as to what constitutes unusual and infrequent items.

Application of the Short-Term Financial Resources Measurement Focus

Paragraph 21.

The ED proposes that tax anticipation notes (TANs) and revenue anticipation notes (RANs) be recognized as short-term liabilities. This proposal focuses on the name of the instrument, rather than on the economic substance of the transaction. Some governments use RANs and TANs with long-term maturities, for capital purposes and are long-term in nature, because they are constrained in issuing bonds. We recommend that a distinction be made between RANs and TANs issued for operating and capital purposes. RANs and TANs issued for operating purpose should be classified as short-term, and RANs and TANs issued for capital purposes be classified as long-term, as would similarly purposed bonds or private placement debt.

Statement of Short-Term Financial Resource Flows

Paragraph 27.

As we identified in our comments on the PV, GFOA notes that the use of the terms "current" and "noncurrent" creates unnecessary confusion, which may result in a misinterpretation of the statement of resource flows. Throughout accounting, the term "current" is widely recognized to refer to assets or liabilities that are expected to be received as cash, used up, or paid within one year of the financial statement date. Within the ED, the term is used to express whether an inflow/outflow is related to short-term or long-term items. We believe clarity would be increased if the GASB did not create this new definition, but rather presented the resource flows statements as revenues and expenditures in which is line with terminology that is more familiar with users of financial statements and used in governmental budget documents.

If the GASB follows through with its proposal to eliminate the terminology of revenues and expenditures, for the same reasons explained in the previous paragraph, the resource flows statements should just use the terminology of "inflows", "outflows", and for the capital/long-term debt items, "net flow of resources related to capital assets and long-term liabilities".

Paragraph 27.

If the GASB moves forward with the proposed Statement of Short-Term Financial Resource Flows, we believe that the transfers line item in the "noncurrent" portion should have captions for transfers that are for capital-related and those that are liabilities-related to help the user of the financial statements understand the nature of the transfers.

Amendments to Statement 54

Paragraph 28.

GFOA understands the need to change the name of special revenues funds if other proposed changes occur, however, we do not support the proposed name "special resources fund." We believe this will exacerbate existing confusion about the need for a restricted or committed source to be the foundation of the fund. We suggest using "special inflows fund" or "designated inflows fund" as possible alternatives.

Budgetary Comparison Information

Paragraph 34.

As we noted in our response to the PV, we believe the continued devaluation of budgetary reporting by the GASB is a significant disservice to the user community. If consistency of reporting is of paramount importance, budgetary reporting should be reestablished as a required, basic financial statement for those governments and funds that are legally required to operate in accordance with an enacted budget. As described in paragraph B71, the auditors are performing compliance testing (e.g. are the items presented required by GASB) at a lower level of assurance than what would be required if the information would be presented as a basic financial statement. The absence of meaningful auditor involvement with budgetary reporting greatly reduces the level of reliance users can place on a government's demonstration of legal compliance with its budget, which is possibly the most fundamental form of financial accountability for governments with legally-adopted budgets. Another potential complexity with relegating the budgetary comparisons to RSI, is that some governments that are required by law to include budgetary comparisons as part of the basic financial statements will not be in compliance with either GAAP or their laws depending on how they report the budgetary schedules.

Paragraph 34.

GFOA does not believe that adding a variance column for the original and final budget adds any meaningful information to the comparison.

Thank you, again, for the opportunity to comment on these Exposure Drafts; we would be happy to respond to any of your questions. Please feel free to contact GFOA's Director of Technical Services, Michele Mark Levine, by telephone at 312.977.9700 ext. 6101 or email at mlevine@gfoa.org.

Sincerely yours,

Melanie Keeton

Melanie S. Keeton, CPA, Chair
Accounting, Auditing, and Financial Reporting Committee

Diane B. Allison, CPA, CGFO

Diane B. Allison, CPA, CGFO, Vice-Chair
Accounting, Auditing, and Financial Reporting Committee