



Rutgers Business School
Newark and New Brunswick

Center for Governmental Accounting, Education and Research
Rutgers Business School, Newark and New Brunswick
Rutgers, The State University of New Jersey
100 Rockefeller Road
Piscataway, New Jersey 08854

<http://business.rutgers.edu/govmaccy>
Tel: 848-445-4441/5311
Fax: 732-445-3755
Email: govmaccy@business.rutgers.edu
Letter of Comment No. 060
File Reference: REC
Project No. 3-20
Date Received: 02/24/2021

February 24, 2021

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sent via email to director@gasb.org

RE: Project No. 3-20 and Project No. 3-25

Dear Mr. Bean:

On behalf of the Rutgers Center for Governmental Accounting Education and Research, kindly accept the following comments on the Governmental Accounting Standard Board's (GASB) Exposure Draft (ED) documents, *Financial Reporting Model Improvements* and *Recognition of Elements of Financial Statements*.

Below we offer comments on three aspects of the ED, specifically concerning (1) the short-term financial resources measurement focus, (2) budgetary comparison information, and (3) management's discussion and analysis.

Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting

We believe the ED's essence is the application of the short-term financial resources measurement focus and the accrual basis of accounting to the governmental funds financial statements. The ED, in this regard, attempts to address certain conceptual flaws within the current financial resources measurement focus which utilizes the modified accrual basis of accounting. We recognize that there is a need to resolve some of the issues dealing with certain types of transactions that seem conceptually flawed, as currently presented in the fund financial statements. Another principal reason given by the ED is to allow comparability between governments recognizing the current varying budgetary practices and the use of the budgetary basis of accounting.

We agree that a short-term perspective needs to be present to evaluate and provide consistent and comparable information on the governmental funds and for use in assessing fiscal accountability. In the absence of a longer term focus due to governments' current budgetary practices, it is essential that both views be provided to the users of the financial statements. When the needs of the various stakeholders and the complexity of understanding a new measurement focus to the users of the financial statements are considered, it is important that overarching and compelling reasons be provided for this change. Despite the push by many towards taking only a single long-term approach, it

would not be feasible to utilize only a long-term approach in presenting government financial information due to the absence of accrual-based budgeting in the U.S.

For users who do not fully comprehend the budgetary basis of accounting and the differences between it and the long-term perspective provided by the government-wide statements, these factors present a challenge to understanding the nature of financial information presented in a government's Comprehensive Annual Financial Report (CAFR). Currently, there are three bottom lines in three operating statements-namely, the budgetary schedule; the Statement of Revenues, Expenditures, and Changes in Fund Balances; and the Statement of Activities. This complexity makes it difficult to reconcile and understand the results of operations of a public entity. We believe it is an opportune time for the GASB to redesign some of the financial statements to provide the information that a user would need in evaluating accountability and interperiod equity. Such a redesign presents an opportunity for the preparers and auditors through simplification in preparing the various required reconciliations due to the use of the different bases of accounting utilized in these financial statements. The goal would be to provide both a short and a long term perspective of the government's financial position.

We tend to support the alternative view expressed by one of the Board members. Through the alternative view, we envision a government preparing government-wide, accrual basis financial statements. The governmental funds would then recast the government-wide, accrual-basis information in the context of a government's funds (one "layer" of governmental fund reporting). The governmental funds information would also be presented using a measurement focus that is more short-term. This "short-term" focus could be the GASB's proposed short-term financial resources measurement focus. If the short-term financial resources measurement focus were adopted, we believe it is more sensible to recognize long-term transactions and other events when payments are due within one year from the date of the financial statements. The Alternative View makes a compelling reason for this change. The third layer would present the information on the budgetary basis of accounting. (Note: we do not intend to suggest that this third layer would be presented last; it could very well be presented first in the governmental fund financial statements). We believe this approach makes explicit the connections between the government-wide information and the budget.

From a presentation perspective, an option that can also be considered is to supplement the budgetary schedule with an additional statement that provides a view of the natural classifications presented in the budget by reflecting these amounts on the budgetary, short-term measurement focus, and the economic resources measurement focus. This could be accomplished through a significant change to the existing statement or could result in an additional statement. We hope that by presenting this information with this level of detail, the reader would be able to more realistically ascertain the effectiveness of the entity's budgetary practices and encourage governments to look at a longer time horizon in their budgeting practices. Some preparers and auditors might argue that this information is already available in the current financial statements and reconciliations. However, despite this information being available, it is currently presented with a high

level of aggregation and does not correlate with the budget, and also does not provide the necessary details. We believe that electronic financial reporting which, even though it is at its infancy in the public sector, can facilitate more flexible and effective financial report presentations. We would urge GASB to consider this factor as it deliberates this area.

Budgetary Comparison Information

Another area of interest is the presentation of budgetary comparison information. We agree that an additional column that presents the difference between the original and final budget amounts and an explanation of significant variance should be presented in the financial report. However, we believe that it would be unwise to move the budgetary comparison schedule or statement to the required supplementary information (RSI) area. The budget statement is singly the most important financial statement in the entire CAFR, and for this reason, it should be part of the basic financial statements. Despite the statement potentially not being prepared under a GAAP basis, this should not be a reason for relegating this statement to RSI, subject to limited audit procedures. Despite the assertions made by some auditors that the level of audit procedures required are comparable to those required in the basic financial statements, we still believe that by including it as part of the RSI, auditors are potentially allowed to limit their work in this area.

Management's Discussion and Analysis

Finally, we very much support the proposals for the Management Discussion and Analysis (MD&A) and the information to be presented in the five sections as outlined by the ED. Hopefully, this will allow governments to discuss issues in a more effective way rather than the current boilerplate discussion that we find in many CAFRs. Our only recommendation here is that under the section titled "currently known facts, decisions or conditions", the Board should encourage governments to provide context to the information being presented by asking them to include forward-looking information if it is helpful and aids in its understanding. This is especially important as more and more governments become involved in strategic financial planning where the current financial information needs to be presented as part of a longer-term plan. Unfortunately, the hesitancy of many governments to not include any forward-looking information in their financial report creates a vacuum and does not provide the appropriate setting for some parts of the MD&A.

In conclusion, we support the continued use of some form of a short-term measurement perspective and if the Board were to adopt its proposal in this area, a one year recognition period from the date of the financial statements. We also propose that the Board consider some modifications to the current financial statements format to enable the reader to easily observe and evaluate the effects of the use of the various bases of accounting and

measurement focuses on the operating statements and statements of financial position. We also urge the Board to consider making the budgetary statement or schedule a part of the basic financial statements and present additional information that would reflect the full accrual basis in the natural classification of expenses and revenues. These changes, along with governments presenting in their MD&A certain types of forward-looking information to bring context to the discussion in this section, would greatly assist users in evaluating a government's financial performance and interperiod equity.

Thank you for this opportunity to share our views with the GASB. We would be pleased to answer any questions which the Board or the staff might have regarding this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irfan A. Bora', with a stylized flourish extending to the right.

Professor Irfan A. Bora, CPA, CMA, CGFM, MBA
Director, Master of Accountancy in Governmental Accounting
Rutgers Center for Governmental Accounting Education and Research