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February 25, 2021

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

Re: Project Nos. 3-20 and 3-25

Dear Mr. Bean:

On behalf of the Division of Local Government and School Accountability within the Office of the New York State Comptroller, we appreciate the opportunity to provide comments relative to the Governmental Accounting Standards Board's exposure drafts *Recognition of Elements of Financial Statements* and *Financial Reporting Model Improvements*. Because these two exposure drafts are so intertwined, with the proposed concepts statement (*Recognition of Elements of Financial Statements*) establishing the conceptual basis that the exposure draft (*Financial Reporting Model Improvements*) uses to ground its guidance, we have decided to combine our response for these two exposure drafts.

Overall, it is our opinion that the proposed changes outlined in the exposure drafts do not substantially improve the accuracy, transparency or comparability of governmental fund financial statements. We believe that making such extreme changes, at least for many of our local governments,¹ may come at a greater cost and risk than the Board has conceived. Specifically, we have concerns that many of our local governments may opt to not file annual financial statements with our Office if the Board moves forward with the proposed changes set forth in these exposure drafts. While this may appear extreme, it is an unfortunate reality we face as we continue to ask our local governments, many of whom do not employ or contract with CPAs/independent Public Accountants, to implement complex authoritative accounting guidance such as GASB Statement No. 68, GASB Statement No. 75 and GASB Statement No. 84.

To better illustrate our position, it is important to first understand how accounting and financial reporting works for our local governments. While we collect independent audit reports for local

¹ We are excluding school districts in the use of the term "local governments" throughout this response, as school districts employing eight or more teachers, are required by Section 2116-a of the New York State Education Law and Section 170.2(r) of the Regulations of the Commissioner of Education to obtain an annual audit of its records by an independent Certified Public Accountant (CPAs) or an independent Public Accountant.

governments that qualify under the federal Single Audit Act, the majority of our local governments are not subject to the Single Audit are not required to have an independent audit.² While the GASB Codification states that “every governmental entity should prepare and publish, as a matter of public record, a Comprehensive Annual Financial Report (CAFR) that encompasses all funds and account groups of the primary government including its component units,” New York State statutes do not address the preparation of a CAFR and only 38% of our largest classes of governments (counties, cities, towns, villages, fire districts and school districts) submitted CPA reports to our office.³ Financial reporting in New York is dictated by General Municipal Law (GML) Section 30, which requires that every municipal corporation annually make a report of its financial condition to the State Comptroller. This report, called the Annual Update Document or “AUD,” is made and certified by the chief fiscal officer. In many of our small to mid-sized local governments, most of the accounting and financial recordkeeping is handled by part-time bookkeepers, who are not CPAs/independent Public Accountants.

If the GASB moves forward with the proposed changes in these exposure drafts, we believe it is likely that our local governments: 1) will need to employ or contract with CPAs/independent Public Accountants for accounting and financial statement preparation services in order to file GAAP-compliant financial statements OR 2) will decide that, due to the complexity of the accounting and reporting requirements and/or the added cost of retaining a CPA/independent Public Accountant to implement those requirements, they will just not file annual financial statements. This latter outcome is overly concerning to us as we understand the importance and need for government accountability and transparency through financial reporting. However, we have and still are experiencing the confusion, frustration, and struggle by many local governments trying to implement GASB Statement No. 68, GASB Statement No. 75, and GASB Statement No. 84.

While we understand and appreciate the GASB’s desire to enhance consistency and comparability in government annual financial statements, we have significant concerns that the proposed changes set forth in these exposure drafts may actually result in unintended consequences for local government financial reporting in New York State. In our opinion, if the GASB has concerns with the current financial resources measurement focus, for example, they should work to make modifications to this approach. For instance, Appendix B in the *Financial Report Model Improvements* exposure draft addresses some of the Board’s specific concerns, including the lack of consistency in the short-term perspective and the lack of existing guidance to record complex transactions. The Board notes that governments are allowed to adopt their own availability periods under the modified accrual basis of accounting, ranging from 60 days to one year. Perhaps to resolve this, the Board could consider issuing a new authoritative statement establishing a period of availability that applies to all governments and cannot be altered. Additionally, the Board could develop and issue guidance to address complex transactions rather than changing to the short-term financial resources measurement focus.

Furthermore, while implementing the short-term financial resources measurement focus may fix or alleviate *some* issues encountered under the current financial resources measurement focus, we believe new issues will arise under the short-term financial resources measurement focus. For

² The two exceptions to this statement are fire districts with annual revenues of \$400,000 or more and fire districts that sponsor or are a program administrator for a Length of Service Award Program. In both these situations, the fire districts must obtain an annual audit by an independent certified public accountant.

³ Based on 2018 fiscal year-end data

example, we have concerns regarding the GASB's definition of a transaction or other event being classified as short-term or long-term. Specifically, paragraph 13 of the *Financial Report Model Improvements* exposure draft states, "...recognition of elements is based on whether transactions or other events are short term or long term. Whether a transaction or other event is short term or long term is determined by the period of time that elapses between the inception of the transaction or relevant component part thereof or other event and the conclusion of the transaction or relevant component part thereof or other event as discussed in paragraphs 14–18." In our opinion, using the period of time that elapses between the inception and the expected conclusion of the transaction, based simply on the payment terms agreed to by the parties, could result in a lack of comparability between government transactions and lead to governments potentially manipulating fund balance levels. We believe it is quite conceivable that two governments with similar transactions could still account for these transactions differently, depending on how they specify the terms in their binding arrangement. For example, if government A orders supplies and agrees to a final payment date 12 months after receipt, and government B orders supplies and agrees to a final payments date 13 months after receipt, government A might record this as a short-term outflow, which lowers their fund balance, but government B might classify this transaction as long-term, which means their fund balance would not be affected until the next reporting period when it is due and payable.

The above examples, along with the strain that will be placed on small to mid-sized local governments as discussed previously, leads us to question whether the benefits will truly outweigh the costs for implementing this new guidance.

In conclusion, we would like to reiterate a point that we have been making to the GASB for many years now. While school districts and many of New York State's larger local governments contract with or employ CPAs/independent Public Accountants, many of our small to mid-sized local governments do not. These local governments have limited financial and staffing resources and many of the proposed accounting and reporting changes require an in-depth understanding of the complex accounting and financial reporting concepts. Years of auditing these local governments have shown us that many simply do not have the resources and/or proficiencies required to efficiently and effectively comply with these statements' requirements. Thus, going forward, we kindly request that the Board consider small to mid-sized local governments, like those in New York State who do not contract with or employ CPAs/independent Public Accountants, when deciding what accounting and financial reporting concepts to globally implement.

Thank you for this opportunity to comment on these proposed Statements. Should you have any questions regarding this response, please contact Dara Disko-McCagg at (518) 474-5505 or DDisko-McCagg@osc.ny.gov.

Sincerely,



Elliott Auerbach
Deputy Comptroller

cc: Dara Disko-McCagg