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February 25, 2021

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

Submitted via email to [director@gasb.org](mailto:director@gasb.org)

RE: Project No. 3-25 Financial Reporting Model Improvements and Project No. 3-20 Recognition of Elements of Financial Statements

Dear Mr. Bean:

This correspondence is in response to GASB's issuance of two Exposure Draft ("ED") documents, *Recognition of Elements of Financial Statements* and *Financial Reporting Model Improvements*. Due to the interrelatedness of the EDs, we've chosen to comment on both in this single document. Thank you for the opportunity to respond.

As justification for the proposed changes, GASB listed its concerns with the existing governmental fund reporting model in Appendix B of the *Recognition of Elements of Financial Statements* document. Our comments below focus on addressing GASB's concerns and rationale for reasons proposed changes to the governmental fund reporting model are needed.

### **Effectiveness of Governmental Fund Information**

In evaluating the effectiveness of governmental fund financial statements for providing information essential for decision making and assessing a government's fiscal accountability, GASB expressed a concern that "if the information in governmental fund financial statements is relied on exclusively, decisions and assessments are made with incomplete information". Of course, this statement is true, but given the extensive disclosures and information that is reported in the CAFR, we find it inconceivable that anyone truly wishing to assess fiscal responsibility would only read the governmental statements. GASB acknowledges that this risk is mitigated by its statement in paragraph B7 of the Financial Reporting Model Improvement document that "users with all levels of knowledge and sophistication about governmental accounting and finance read MD&A and inform decisions and assess accountability based on the information contained within MD&A. As a result, the Board believes the requirement to present an overview of the basic financial statements and the significant differences in the information they provide is necessary to help users understand the information in those statements.'

We support the proposed changes to MD&A that seek to reduce "boilerplate" discussion and provide an overview of the basic relationships of the statements to each other. In our opinion, the short-term nature of information in the governmental fund financial statements can adequately be explained in MD&A and

in the summary of significant accounting policies footnote. Adoption of the short-term financial resources measurement focus is an extreme attempt to satisfy concerns that can be easily addressed in other ways.

### **Conceptual Consistency**

We agree with the dissenting board member's alternative view that the concepts statement "further severs governmental fund accounting and reporting from their budgetary counterparts," undermining the "very rationale for the presentation of the governmental fund financial statements." Establishing recognition criteria based upon the period between inception and conclusion of an underlying transaction or event will result in a different reported fund balance for governments depending on length of time that will no longer be comparable or a reliable measure of what is available for spending in the next year. The alternative view (paragraph B49) illustrates a scenario whereby despite the same due dates, one \$10 million note is recognized, and one isn't, simply because the length of time from the date of inception differs. If implemented, this conceptually flawed recognition approach will force governments to implement more costly processes and procedures to ensure compliance with the new reporting standard, as governments will continue to operate and budget as they always have.

It appears that GASB's desire for conceptual consistency within the governmental fund financial statements perhaps arises from a desire to appease misinformed users who seek to compare and more closely align governmental fund reporting concepts with those used in the net income-based business world. In our opinion, this is inappropriate, as the nature and purpose of governmental fund financial statements are completely different from balance sheets and income statements used to evaluate profitability in the business world. Conceptual consistency should not come at the expense of a long-used "flow of funds" accounting and reporting model that more closely reflects how governments operate and how they demonstrate fiscal accountability.

We concur with the board member who expresses the alternative view that "the short-term financial resources measurement focus and accrual basis of accounting is inconsistent with the reporting objectives that the Board itself has established." This board member points out serious conceptual flaws with the proposed model in paragraphs B117 – B123 of the Financial Reporting Model Improvements document. We agree with his view that "an accounting and reporting model that is at best decision useless, and at worst, misleading, is indefensible."

### **Guidance for Complex Transactions and Lack of Consistency in Short-Term Perspective**

We believe that consistency in recognition periods and transparency of conceptually complex transactions of a longer-term nature is better achieved by issuing authoritative guidance that specifically addresses those concerns. For example, GASB concerns about compromised comparability due to governments' use of different availability periods could be addressed with guidance that establishes a defined period of time (eg. 60 or 90 days).

We believe many of the new complex and longer-term issues are more appropriately reported in the Government-wide statements and other disclosures, as opposed to modifying existing governmental fund statements to the degree they are unrecognizable from historical reporting. We do not believe the proposed changes will add value to financial statement users and in fact will cause more confusion and hinder comparability to historical statements.

### **Budgetary Comparison Information**

By implementing the short-term financial resources model, the governmental fund financial statements will be completely different than the way governments operate. This will force most entities to adopt a budgetary basis different from GAAP and will require each entity to maintain three types of financial statements. This will be very costly in both time and money as additional personnel will be required, as well as significant changes to financial systems. This will also create confusion for the readers and will require much more explanation within the annual report to further explain the difference between the three financial statements. Since the information most relevant to governing bodies, rating agencies, and citizens will be contained in the financials that mirror how a government operates, the budgetary actuals

will be relied upon more heavily than either of the other statements. However, as mentioned in paragraph B113 of the *Financial Reporting Model Improvements*, each government could create its own unique budgetary basis and will further “diminish comparability among governments”. In addition, we do not believe that including budget variances between original and final budget amounts adds meaningful information for financial statement users. As there will be significant differences within the actuals on budgetary basis and governmental fund financial statements, those reconciliations will be more needed than something that can easily be seen on the face of the statement. If required, this addition will add useless information that only increases the burden placed upon financial statement preparers.

### **Conclusion**

We appreciate the challenges that GASB faces to accommodate a variety of stakeholders who hold different interests and priorities. However, we strongly disagree with GASB’s assertions that adoption of the short-term financial resources model will provide significant improvements to the current financial reporting model. In our view, if adopted, this change will further erode the usefulness of governmental fund financial statements in decision making and assessing a government’s fiscal accountability.

If GASB insists on moving forward with implementation of both of these ED’s, we strongly encourage a postponement to the effective date to coincide with the proposed changes to *Revenue and Expense Recognition* (Project No. 4-6P). Although we disagree with the proposals in that project (separate comment letter sent), any changes to Revenues and Expenses along with the Financial Reporting Model, will require extensive changes to chart of accounts and accounting systems. Consolidating these significant changes, although still requiring substantial resources, will require less as an entity can make all changes at the same time instead of one significant overhaul and then another a year or two later.

We applaud GASB’s desire to improve financial reporting in order to create more consistency and comparability among governments. It is our belief that consistency in recognition periods and transparency of conceptually complex transactions of a longer term nature is better achieved by issuing authoritative guidance that specifically addresses those concerns. We believe many of the new complex and longer-term issues are more appropriately reported in the Government-wide statements and other disclosures, as opposed to modifying existing governmental fund statements to the degree they are unrecognizable from historical reporting. Additionally, while we recognize the necessity for state and local government reporting to evolve, we reiterate our concerns that recent trends by GASB to shift away from more budget-based accountability reporting models threaten our ability to prepare and issue financial statements that accurately represent how governments actually operate.

Sincerely,



Kathryn Madden, CPA  
Chief Assistant County Auditor II  
Travis County Auditor’s Office