Letter of Comment No. 115
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Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 068556-5116

Re: Projects 3-20 & 3-25

Dear Director of Research and Technical Activities:

Thank you for providing the opportunity to comment on Projects No. 3-20 and 3-25. I would also like to thank the GASB Board, staff, and taskforce for their time and effort dedicated to working on these projects and re-examining the existing financial reporting model.

The focus on my comments in this letter pertain to Business Type Activities, as it relates to the potential impact on my organization's reporting model. Therefore, my following feedback is as follows:

Project 3-20 – Elements of Financial Statements:

- The thing that stands out the most to be as beneficial is Paragraph 13, Hierarchy of Recognition. When the deferred outflow of resources and deferred inflow of resources concept as formally introduced into GASB financial reporting, it was and still can be an awkward concept to work with. Having a pecking order of evaluating a financial reporting element essentially creates a roadmap for consideration. The "wish" here on the concept of deferrals relates to the timing of the Revenues and Expense Recognition project where additional clarification is made. To this point, is there any potential consideration to pull some of the clarification on deferrals from that project into this guidance?

Project 3-25 – Financial Reporting Model Improvements:

- I appreciate the GASB re-looking at the guidance that governs the Management Discussion & Analysis (MD&A) to direct preparers to reduce the use of boilerplate information and repetition of information disclosed. Specific things that I noticed that I am appreciative include:
    - Inclusion of detailed analysis beyond just reporting amount and/or percentage changes amounts by including facts, decisions or conditions, along with significant policy changes.
    - Being more specific on what should be covered under significant capital asset and long-term debt activity, including changes in credit ratings and addressing significant arrangements tied to leases, public-public and public-private partnership, and subscription-based information technology arrangement (SBITA) activity.
    - Wrapping in more guidance around currently known facts, decisions, or conditions by providing examples as a reference point noting they are not all-inclusive.

- Additional guidance or clarification related to Paragraph 5 versus GASB Statement No. 34, Paragraph 9 where they similarly state would be helpful if the GASBs intent is to de-recognize the notion of presenting the third year when two year comparative financial statements are presented. If that is the intent, consideration towards adding explicit language would be helpful. Also noting, consideration of eliminating the notion of the extra third year may be helpful in scaling the information presented back since the emphasis on discussion is on the current year and to keep the reader focused on just the two comparative years only.

  - Paragraph 5 states: MD&A should discuss the current year balances and results in comparison with the prior year, with emphasis on the current year.
  - GASB 34, Paragraph 9 states: MD&A should discuss the current-year results in comparison with the prior year, with emphasis on current year.

- For the financial statement presentation, I understand the logic behind the presentation geared towards the "Self-Sustaining or Subsidized Approach". However, I was anticipating that the project may have considered moving the presentation of revenues into one section and have expenses be presented in their own standalone section, and closer align presentation with the FASB Not-For-Profit Financial Reporting model. As the proposed change reflects, in substance, we are really in the same spot showing an operating loss with a change to pull up subsidy revenue, such as state appropriation, and segment that type or revenue for a new subtotal. I ask the question, do we really gain anything other than creating another subtotal? Regardless of subsidies or not, Not-For-Profit organizations are subsidized as well through donors, and the presentation model simplifies things. This type of similar (not exactly the same) allows for organizations like mine to closely relate our financial reporting model to our foundations. Furthermore, the revenue and expense description is the most telling. To this point, this could be easily further articulated in the footnotes from a definitional standpoint.

- A definition of subsidies is helpful in terms of GASB not having previously defined them. Having a definitional reference point in the context that the GASB categorizes them as non-operating, in conjunction with the GASB considering operating revenues and expenses to be revenues and expenses other than non-operating revenues and expenses. At the same time, however, I have some concerns or questions around this:
  - The default classification of operating revenues and expenses if not appropriately categorized as one of the following non-operating categories: (a) subsidies received and provided; (b) revenues and expenses related to financing; (c) resources from the disposal of capital assets and inventory; or (d) investment income and expenses. In looking at one's chart of accounts, I ask the question in the context of an organization's mission of research, teaching, and public outreach, if we have ancillary sales outside of this mission, does that really constitute "operating" revenue? GASB 34, Paragraph 102 mandated us to establish our policy and definition. Revenues such as, IRS settlements, sales of recyclable materials, exploration / extraction of natural resources revenue, and sales of excess electrical power may not support an organization's mission—they might be ancillary. So, I ask the question, is this revenue really operating?
  - Definition of subsidies, I think should be considered for additional clarification. Otherwise, it could possibly be misinterpreted or misguided in application. If you look at (b) resources provided to another party or fund that results in higher rates than otherwise be established for the level of goods and services to be provided. Contractual arrangements have the potential to be negotiated. Depending on how entangled the contractual arrangement might be (e.g., gift piece and exchange of services comingled in one contract price), I think that definition needs to be reconsidered in the context of various constructs of transactions.
  - If an implementation guide is issued or a Q&A for the subsidies is of consideration, I would ask that you provide some specific examples that may a little grey in application of operating versus non-operating. In higher education, you have scholarship expenses

funded through “subsidy” revenue. If the subsidy monies are awarded to a student and subsequently paid out to them to pay for books and other expenses outside of the higher education institution, are you considering the expense to be non-operating? If so, this will be a change for higher education in terms of shifting them from operating expenses to non-operating. This type of change has other reporting implications for higher education, such as Integrated Postsecondary Education Data System (IPEDS) finance surveys.

This concludes my comments on these two projects. Thank you, again, for your organization’s willingness to seek input from various audiences and perspectives.

Sincerely,

Terri Hall
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