

March 16, 2001

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

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (Board) appreciates the opportunity to provide comments on GASB's Exposure Draft (ED), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, which would amend GASB Statements No. 21 and 34.

The Board, comprised of twenty-one members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to Association members. Local AGA chapters and individual members are also encouraged to comment separately.

Overall, the Board agrees with the guidance contained in the ED and believes that the proposed ED accomplishes its objective to either 1) clarify certain provisions or 2) modify other provisions that GASB believes may have unintended consequences in some circumstances. The Board does, however, offer the following suggestions that we believe will enhance the final document.

General

Although we agree with the guidance in the ED, we are concerned that the "piecemeal" format used to present the amendments in each paragraph will require the reader to continually refer to GASB Statements No. 21 and 34 to fully understand the guidance. For example, Paragraph 14, on Page 5 of the ED, merely states that "In paragraph 88, *proceeds* is replaced by *the face amount*." We believe that GASB would greatly improve the clarity, understandability, and user friendliness of the final Statement by stating each appropriate amendment, then repeating the *complete* paragraph(s) that is affected. For example, we suggest that Paragraph 14 be revised to read "This Statement amends Paragraph 88 of GASB Statement No. 34 by replacing "proceeds" with "the face amount" as follows: Items that should be reported as other financing sources and uses include the face amount of long-term debt, issuance premium or discount, certain payments to escrow agents for bond refundings, transfers, and sales of capital assets (unless the sale meets the criteria, as defined in paragraph 56, for reporting as a special item)."

Capitalization of Construction-Period Interest

Paragraph 6, on Page 3, would eliminate the requirement for capitalization of construction-period interest on capital assets used in governmental activities. While we are aware of why this change is being made (capitalization of construction period interest conflicted with the provisions of Paragraph 46 of GASB 34), we believe it is misleading. Because the government-wide financial statements present both governmental activities and business type activities using the same measurement focus and basis of accounting, we believe readers will assume that the accounting treatment for similar transactions (i.e., construction-period interest) is the same. We recommend that GASB resolve this inconsistency or, at a minimum, more clearly explain why interest is not capitalized for governmental activities.

Program Revenues – Charges for Services

In Paragraph 11, on Page 4, we suggest that GASB consider changing the title “Charges for Services” to a more inclusive term such as “Service Charges, Fines, etc.,” or “Other Program Revenues.” We are concerned that the current title leads readers to believe that a benefit is received for the charges paid (i.e., an exchange-like transaction has occurred). Because fines and forfeitures arise out of negative actions by individuals and businesses and there is no direct benefit received, we suggest that GASB consider changing the title.

Other Comments

Paragraph 8, also on Page 3 of the ED, would add the following footnote at the end of Paragraph 25 of GASB Statement No. 34: “A change from the depreciation method to the modified approach should be reported as a change in an accounting estimate.” Because the Summary of the ED clearly states that this change should be accounted for *prospectively*, and because Paragraph 18 (the transition paragraph) explains that accounting changes related to this proposed Statement should be applied *retroactively*, we suggest that GASB expand the footnote in Paragraph 8 to read “A change from the depreciation method to the modified approach should be reported as a change in an accounting estimate, with the change accounted for prospectively.”

Paragraph 12, on Page 5 of the ED, would add the following footnote at the end of Paragraph 67c: “The focus of these criteria is on fees charged to external users.” Because Paragraphs 67a, 67b, and 67c all relate to enterprise fund fees and charges, and because Paragraph 50 of the ED’s Basis for Conclusion states that GASB believed it was understood that the fees “...referred to in a, b, and c were those charged to external users as described at the beginning of the paragraph,” we believe that adding the footnote only to Paragraph 67c would mislead the reader by placing undue emphasis on that one subparagraph. Therefore, we suggest that GASB revise Paragraph 12 to add the footnote to the word “criteria” in the second sentence of Paragraph 67, which reads “Activities are *required* to be reported as enterprise funds if any one of the following criteria is met.” As a less preferable alternative, we suggest that GASB, in subparagraphs 67a, 67b, and 67c, expand the term “fees and charges” to read “fees and charges to external users.”

Again, the Board appreciates the opportunity to provide comments on the Exposure Draft. Should you have any questions, or desire further details on the Board’s position,

please contact me at (517) 334-8060, Ext. 500, or Sharon R. Russell, the Board's facilitator for this project, at (334) 242-9200.

Sincerely,

Jon A. Wise, C.P.A., C.G.F.M., Chair
AGA Financial Mgt. Standards Board

c: W. A. Broadus, Jr.
AGA National President