February 15, 2019

Mr. David R. Bean, Director of Research and Technical Activities
Project No. 3-25
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

VIA Email: director@gasb.org

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Government Accounting Standards Board (GASB) on its Preliminary Views (PV) document, *Financial Reporting Model Improvements* and are respectfully providing feedback on the Board's Views. In addition, this letter serves as notice of intent to participate in the public hearing on March 12, 2019 in Atlanta. Lealan Miller will be delivering the views of the FMSB and will be available to discuss any questions you may have on our response to this PV.

The FMSB is comprised of 19 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

Our response to the Board is based upon the concepts raised in the Chapters. We agree with many aspects of the proposed concepts. In other aspects, we support the Alternative Views (AV).

We agree with the Board's concerns about the current modified accrual basis of accounting lacking symmetry and conceptual consistency. Both the proposed view and alternative view would clearly result in a more useful and coherent financial statements for governmental funds. We also agree that the focus placed on *financial resources* is a reasonable approach.

Recognition Concepts and Application for Governmental Funds

Regarding the short-term financial resources measurement focus the members of the FMSB believed that the AV reflected a clearer presentation of the fund perspective and was clearer on the recognition and provided better information for the reader. We believe that the AV provides the best information to answer the question that most people in governance asks, "How much fund balance is available for spending?" The AV also provides a better presentation of debt since it uses the stated or contractual maturities which are easier to understand as well as verifiable by auditors. If the stated or contractual maturities are not available use of best estimate of periods of receipt or payment is an acceptable method in recognizing the liability.

We disagree with the continued focus on the concept of "normally" as described in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.* We are concerned that the term "normally" is too subjective and open to interpretation and potentially manipulation. The Board's Preliminary View retaining the concept of "normally" may result in continued inconsistency between governments with like operations in governmental funds as one government's 'normal' is not another government's 'normal' due to budget provisions, operations, laws, regulations and other differences.

Format and Content of the Governmental Fund Financial Statements

Some members of the FMSB expressed the view that with the short-term perspective it is a continuation of current reporting where the fund financial statements use a unique measurement focus, basis of accounting, required statements and statement layouts that is different from those used for other fund types and the government-wide statements. This is the primary source of the extraordinary complexity of the state and local government reporting model, which will continue to impair usefulness for decision making or assessing a government's accountability so long as this internal inconsistency exists.

We agree with the Board that an item should be recognized and, therefore, reported as an element of the financial statements if it meets the criteria as noted in paragraph 10 of Chapter 2. We recommend that "a." be modified to incorporate the AV's definition of short-term measurement focus and replacing the concept of "normally". We recommend no changes to the second criteria as defined in paragraph "b".

We agree with the preliminary view that resource flows statement should be presented using the current and non-current(long-term) activity format. We believe this view is easily adopted among preparers and understood among users of the financial statements without the potential confusion by using long-term. However, a member of the FMSB would like to see the operating statement format be more aligned with either the proprietary fund statements or the government-wide statements for more consistent presentation.

Regarding the changes in the titles of the Balance Sheet and Statement of Short-Term Financial Resource Flows, we had differences amongst the group. While some believed the changes appropriately alert users regarding the difference from the government-wide financials statements others believed that that the repeating of the phrase "short-term" was too much. The proposed statement titles are cumbersome and not necessarily adding significant value. Too often, standard setters and preparers of financial statements are trying to educate the reader to get more people to read the financial statements. This does not increase readership but creates a set of financial statements that are taxing to read.

Adding "short term" throughout the financial statements makes the financial statements cumbersome to read. If it is the belief of the Board that it is imperative to inform the reader of the short-term nature of the financial statements, then we would agree with the above proposed statement titles with a robust discussion in the footnotes but not to title each element "short-term".

Most members of the FMSB believe adding the explanation to the title of the balance sheet and the statement of short-term financial resource flows comes across more of a "disclaimer" than an explanation. If an explanation is considered necessary, perhaps the proposed short-term perspective is not adding value to the financial statement. It is believed that for the readers of the financial statements an explanation in the footnotes is adequate. Some members do believe that having the statement provides a reminder of the different presentation compared with the entity-wide financial statements. There is also the opportunity to utilize a similar phrase in the reconciliation schedules from the governmental fund financial statements to the government-wide statements. Each of the reconciliation schedules already contain text explanations.

Therefore, adding more text to the reconciliation would alleviate some of the burden and diminishing element of the “disclaimer” at the top of each statement.

Presentation of the Proprietary Funds
We agree with the initial definition of operating and nonoperating revenues and expenses for proprietary / enterprise funds. The delineation of operating versus Nonoperating flows, while easy to understand intuitively is difficult to define for some proprietary entities. For entities that provide loans or other forms of financing to third parties will have difficulty understanding what is operating versus nonoperating utilizing the current provisions. After all, financing and investing flows appear to be nonoperating in the Board’s preliminary view. For these entities, such flows are assuredly operating. For other entities, the approach seems reasonable and should enhance the comparability of information amongst governments.

We recommend the Board work on providing an expanded definition of “subsidies” as the Board moves forward in the process in considering any potential change on the Statement of Cash Flows for proprietary funds. One member of the FMSB recommended that the Board take into consideration when finalizing the definition of operating for the operating statement that it be consistent with the definition used for the statement of cash flows.

Overall adding subtotals to financial statements can be confusing to the readers of the financial statements especially when it comes to single line items within the operating statement that are then subtotaled. We believe that most readers can do their own calculation for subtotals based on their own interests. We recommend the Board to consider keeping the number of required subtotals to a bare minimum based on operating and nonoperating flows. However, we agree that inclusion of noncapital subsidies will be informative to users and will aid in the determination of whether an entity is self-supporting and / or keeping rates lower.

We agree with the recommendation that budgetary reporting should only be reported as RSI. However, we believe the second variance column is unnecessary and bulky and could force the preparers to fit the statement on one page but at a smaller font or force a two-page presentation of which either format is not easy on the eyes. We believe the readers of the financial statements can read the statement and determine the information since it is already presented. As an alternative, we believe that a narrative explanation of *material* variances between original and final budget could substitute for a variance column comparing original and final budget.

We have no issues with the PV of the treatment of the component units and the allowance of the combining financial statement for major component units. This will help with the large organizations that have multiple major component units.

We appreciate the Board’s efforts to minimize the effect of proposing a required statement on smaller organizations. While the information from a schedule of natural classification of expenses is relevant and useful information, it can be onerous for smaller organizations to prepare. We agree requiring the information for only those organizations that prepare a CAFR, but caution that some systems may generate this information on a cash or budgetary basis. The preparation of many CAFRs involve the assembly of budgetary flow information, adjusting to the modified accrual basis of accounting and then posting of manual accruals to present the CAFR. The posting of manual accruals is often not at the detail level to produce a schedule based on natural classification.

Alternative Views
As previously indicated, we do not support the concept of “normally” as it does not enhance comparability. Generating accounts receivable and accounts payable based upon contractual receipt and payment information is a reasonable idea, if the focus of governmental fund reporting remains on *financial resources*.

Our members did not support the preparation of a government-wide statement of cash flows though, especially if the statement uses the direct method. We believe this would be onerous. Converting to an indirect method would need further research to see if it may be accomplished.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact me at (208)383-4756 or Lmiller@eidebailly.com.

Sincerely,

Lealan Miller

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John H. Lynskey, CGFM, CPA, AGA National President

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