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Director of Research and Technical Activities, Project No. 3-25
Governmental Accounting Standards Board
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Via email to: director@gasb.org

Dear Mr. Bean:

The Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB) on its exposure draft (ED) of a proposed statement titled *Financial Reporting Model Improvements.* While we agree with many of the ED's provisions, we disagree with portions as well and have organized our comments by ED topic.

Management's Discussion and Analysis (MD&A)

We agree with the discussion on the current-year balances and results in comparison with the prior year, with an emphasis on the current year. However, we believe the analysis should focus solely on at least *significant* or *material* balances so that the analysis aligns with paragraph 4 (other conditions that may have a significant effect on financial position or results of operations) and paragraph 8(b) which presents *condensed* information in a financial summary and 8(c-e) which presents a detailed analysis of significant changes. We also strongly endorse encouraging the use of charts, graphs, and tables in MD&A as we agree a visual representation is often easy and quickly understood by a reader.

We agree with the analysis in MD&A avoiding unnecessary duplication and not be repeated once presented initially (also as discussed in B5-B7). In the examples provided in Appendix D, we believe that these will be copied by many governments and likely become boilerplate in the same fashion that examples provided in the *Implementation Guide* to GASB-34 still are presented. With that in mind, one FMSB member suggests that the final example MD&A be watermarked with 'example' or similar.

We agree that MD&A should focus on the primary government and the ability to use professional judgement on whether to discuss events regarding discretely presented component units.

We suggest paragraph 8 d. (1) include a provision (perhaps a footnote) barring discussion of significant changes in infrastructure assets using the modified approach (as discussed in Basis of Conclusions paragraph B15) as such comments should now be part of notes to required supplementary information. We consider such a clarification necessary since changes to infrastructure would often constitute "significant capital asset activity" and such a provision would avoid duplicating comments among the MD&A and required supplementary information.

Unusual or Infrequent Items

We agree and appreciate the Board's efforts to simplify and converge this topic with other standard setters.

Presentation of Governmental Fund Financial Statements

We share the alternative view's concern that the value of the short-term financial resources measurement focus statements is highly questionable and at worst, not meeting the benefit of any interested party. We do see benefit in the elimination of multiple availability periods and creating a uniform recognition criterion for state and local governments. However, the project's stated goal was to replace the "collection of traditions" of modified accrual accounting that resulted in some strange accounting with one that was conceptually grounded and complete. This latest proposal falls short of that goal in some respects.

Considering paragraphs 21 and 22 of GASB Concepts Statement No. 1, it is difficult to see how the proposed short-term financial resources measurement focus and accrual basis of accounting for governmental funds satisfies accountability. In a similar fashion, it was equally difficult to say that the modified accrual basis of accounting was any better. Especially for governments that internally pool cash, the current balance sheet and the proposed short-term financial resources balance sheet for governmental funds only presents a slice of financial resources that is already presented in the entity wide financial statements. Empirically, users seem to focus on spending and other budgetary flows, along with stabilization fund usage to balance budgets. Per paragraph 19 of the ED, only *financial* assets including inventory and prepaid expenses would be presented as assets in the short-term balance sheet. The only liabilities that would be presented are those that arise from short-term transactions and other events. Few liabilities beyond accounts payable may end up being presented unless debt has matured but gone unpaid. A better mechanism may be just to present the flows statement along with beginning and ending fund balances, if governmental funds are to be presented. This may also facilitate some alignment to budgetary accounting (see Alternative View, par. B111).

Implementing the short-term financial resources measurement focus and accrual basis of accounting for governments with tens of millions of transactions annually will be difficult, even more so for those governments with decentralized systems, policies, and procedures. Governments will have to scrutinize each transaction to determine the time that elapses between the inception of the transaction or relevant component thereof and the conclusion of the transaction or relevant component thereof. Further, the phrase 'relevant component part thereof' in paragraph 13 is undefined and unexplained in the standards section. Indeed, in paragraph 12 and in footnote 11, *transaction* is not the same as *unit of account*. Governments will need to implement the measurement focus and basis of accounting at the transaction level and then present external financial reports at the unit of account level. Should the provisions be approved as proposed, the implementation period may not be long enough to change policies, procedures, and operations.

Our strongest objection to the short-term financial resources measurement focus is recognizing transactions based on the inception of the transaction rather than based on the financial statement date. Such a significant departure from the way transactions are currently accounted for risks confusing financial statement users who have grown used to having statements look out from the balance sheet date. We suggest recognition be based on the straight-forward, well-understood and aligned criteria of when amounts are due rather than introducing new concepts of "inception and conclusion." As the alternative view points out in paragraph B119, focusing on the inception of the transaction can result in a distorted view of what is due in the "short-term." We agree with the alternative view that the relevant information is "the amount of the obligation or receivable and the date on which the obligation is required to be paid or on the which the receivable can be collected."

Regarding the provisions of paragraph 20 to report long-term debt as a short-term liability at the fund level, we suggest the board harmonize these requirements with GASB codification sections 2200.181-190 for classification on the government-wide statements. Our preference is to apply consistent criteria at the fund level and government-wide statements when determining short-term liabilities.

Finally, we urge the Board to maintain the existing terminology for "modified accrual," revenues, and expenditures at the fund level. Just as the term "modified accrual" informed users that there were differences in how things were accrued at the fund level, this will still be the case in the revised model. There needs to be a distinction in terminology on how accruals are carried out at the entity-wide level and the fund level and "modified accrual" still achieves that aim. Users will simply adopt what the new "modified accrual" methodology is at the fund level. We have similar beliefs with the terms revenues and expenditures. These terms can still be used at the fund level without confusing users as to what the underlying meaning is. We also find it confusing to have the terms "current activities" and "non-current activities" nested within a short-term financial resource flow statement, particularly when the terms "current" and "non-current" are already used elsewhere in the reporting model with different definitions.

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position

We agree with the definitions of operating and non-operating revenues and expenses in paragraph 31 and appreciate the allowance for revenues and expenses that would otherwise be classified as nonoperating to be classified as operating if it constitutes the government's principle ongoing operations.

We encourage the Board to include a definition of "principal ongoing operations" as it is unclear if this applies only to the fund's most significant ongoing operation or if a fund can have multiple principal ongoing operations.

We question the utility of a new "non-capital subsidies" classification and terminology. Continued classification as non-operating revenue or expense would reduce the complexity of this statement and eliminate additional classification questions.

Information about Major Component Units in Basic Financial Statements

We agree with the proposed requirements, which will enhance consistency in government financial reporting.

Budgetary Comparison Information

We agree with the proposed requirement to report all budgetary comparison schedules as required supplementary information. This will provide consistent reporting across governments and allow users to locate this information quickly. We continue to suggest there is no utility in reporting the original budget (assuming no amendments to it) or the variance between the original and final budget. We consider the final budget amount as essential information.

Statistical Section

We consider the requirement to report revenues by major source as beneficial to users and support this provision.

Effective Date and Transition

Given the significance of the changes in the Presentation of Governmental Fund Financial Statements, the Application of Short-term Financial Resources Measurement Focus and Accrual Basis of Accounting in Governmental Funds, and the Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position of the Financial Reporting Model (FRM) Improvements ED and the Revenue and Expense Recognition (RER) ED we urge the Board to unify the implementation of these sets of standards. Implementing these portions of FRM and RER will require substantial investment in software, training, and planning on the part of both preparers and auditors. Also, we think users are better off comprehending and learning one set of major changes at a time rather than subjecting them to multiple years of significant change.

The FRM portions related to MD&A, unusual and infrequent items, information about major component units, budgetary comparison information and financial trend information could be implemented prior to the portions of FRM and RER mentioned in the previous paragraph.

We concur with the proposed threshold of annual revenues of $75 million or more to determine whether to allow a one-year delay in implementation for smaller governments. We consider this delay as vital for smaller governments as we consider them as having fewer resources to implement these changes.

The FMSB is comprised of 24 members (listed below) 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. The views of the FMSB do not necessarily represent those of AGA and the local AGA chapters and individual members are also encouraged to comment separately. If there are any questions regarding the comments in this letter, please contact me at (517) 334-8069.

Sincerely,

Craig M Murray

Craig M. Murray, CGFM, CPA, CIA
Chair, Financial Management Standards Board

cc: Wendy Morton-Huddleston, CGFM, PMP, AGA National President

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