



February 15, 2019

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: September 12, 2018 GASB Preliminary Views, *Financial Reporting Model Improvements* (Project No. 3-25)

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's work in developing the preliminary views of the Board on improvements to key components of the financial reporting model. Those proposed changes would improve the effectiveness of the financial reporting model in providing information that is essential for decision making and establishing guidance that different types of governments would be able to apply to a wide range of transactions. Currently, TIC sees a lot of diversity in practice in areas of the guidance that do not address how to handle specific transactions and TIC believes that a new model would be a welcome change.

Short-Term Financial Resources Focus

TIC believes that the short-term financial resources does provide an effective shorter-term look than the government-wide statements. In TIC's earlier comment letter related to the original ITC on the Financial Reporting Model, the majority of TIC members thought this was the best approach of the three original options.

TIC believes the overall conceptual framework provided in the ED seems to make sense and captures all types of governmental transactions in a way that should be fairly easy for users of governmental financial statements to comprehend. TIC believes that the preliminary views

document helps to improve consistency by using a recognition window of one year from the inception of the transaction or other event in determining short-term and long-term transactions. TIC also agrees that grouping by class of transaction and providing additional guidance on specific transaction classes is a great approach.

Our one big area of concern, also indicated in our Recognition of Elements comment letter, is we do not believe this focus should use the terms “outflows” and “inflows” but, rather, should use the terms “revenues” and “expenditures.” TIC believes that those charged with governance may struggle with these terms which could lead to confusion for one primary user group of the financial statements.

TIC understands the conceptual framework related to reporting transfers in/out either as inflows/outflows for current or noncurrent activities but believes, in practice, there will be inconsistency in the application of this approach. If this approach is carried forward into the final standard, TIC believes additional guidance or educational material would be needed to display transfers in this manner.

In addition, TIC believes there is excessive use of the terminology “short term financial resources” on the face of the fund statements, which clutters up the statements. And, in many cases, repeating the terminology would not be necessary for users to understand the approach. TIC believes a better place for the explanation would be in the notes to the financial statements.

Long-Term Transactions When Due

TIC agrees with the view that long-term transactions should only be shown on the governmental fund financial statements when due. The current portion of long-term transactions will still be found by looking at the government-wide statements. TIC believes including the current portion of long-term transactions in the governmental fund financial statements would detract from the short-term nature of the measurement focus.

In addition, recording the current portion of long-term transactions in this fashion would result in a different period expenditure recorded than what was actually budgeted. For example, using the alternative view, a December 31, 2018 government would record the debt paid in 2019 when the payment is due, which would be consistent with their budgeting process.

Use of the Term “Normally”

TIC agrees with the use of “normally” rather than stated or contractual maturities (or best estimate) in determining recognition for classes of transactions. TIC understands the alternative viewpoint that using “normally” could sometimes result in long-term transactions that will be payable within the next operating cycle not being shown using this focus. TIC believes that the benefit to a vast majority of governments in consistency and comparability by using the concept of “normally due” outweighs the issues that would arise.

TIC also understands that what is normal for one governmental entity may not be normal for all but believes that in most cases using “normally” will result in better reporting and believes the approach of additional guidance on what constitutes “normally” for those minority situations would be beneficial.

Budgetary Information

TIC disagrees with the proposed requirement to require a variance column on the budgetary statements between original and final budgeted amounts. TIC believes that requiring this information on the face of the statements will clutter up the financial statements while not necessarily providing decision-useful information. TIC believes that information is readily identified without the variance column by scanning the original and final budget columns. TIC does not believe that the financial statements are the proper reporting mechanism for changes in a budget.

TIC also noted that the ED did not provide an example of a budgetary statement, which would be helpful for users in understanding the level of detail and how this statement might look for a government.

TIC does agree that requiring budgetary information to be presented through a singular communication as Required Supplementary Information (RSI) will improve consistency in reporting.

Government-Wide Expenses by Natural Classification

TIC does not believe that presenting the schedule of government-wide expenses by natural classification as supplementary information in CAFR’s would be an improvement to the current financial reporting model.

TIC noted that budgets are not based upon what is in the government-wide statements. Elected officials review natural classifications and spending during the budget process at the fund level and they would not gain anything additional by having it at the government-wide level. Further, adding even more supplementary information would continue to add more overall information for a reader to review and comprehend, thus, further reducing the relevance of the basic financial statements.

Lastly, TIC felt that, if presenting the schedule of government-wide expenses by natural classification as supplementary information in CAFR’s was going to be required, the delineation between CAFR’s and non-CAFR’s should not be made with this supplementary information in order to promote consistency.

Major Component information

TIC believes that, removing the presentation of major component unit information in the notes to the financial statements and, rather, requiring combining statements after the fund financial statements is an improvement. TIC believes, considering the amount of information in the notes, that the consistency of positioning the information would make it easier for users to understand and less likely that the information would be lost. TIC also believes this approach will lead to more consistency in practice and will help users of the financial statements to more clearly analyze this information.

Definition of a Subsidy

Although there were some differing views on this issue, the majority of TIC members agreed that the definition of a subsidy should provide some clarity and consistency in financial reporting. TIC believes this definition accurately describes how subsidies fund the “gap” between market rates and rates used by a governmental entity. As these funds are usually used for operations, TIC believes this is accurate and helpful in understanding what an operating subsidy is.

However, TIC is concerned that some entities may not appropriately recognize that subsidies from another government actually act in a manner to lower rates in practice. TIC also questioned whether there would have to be proven intent in order to meet the definition of a subsidy.

Cash Flow Statements

TIC believes that a statement of cash flows should only be prepared for the proprietary funds and not the government-wide statements. TIC does not feel that adding a requirement to provide a cash flow statement for the government-wide statements would result in decision-useful information and the cost to create this additional statement would not add benefit to the reader of the financial statements.

Proprietary Fund Nonoperating Revenue

TIC believes that defining nonoperating revenue in the proprietary funds and defining everything else as operating seems appropriate and should be understood by users of the financial statements.

Statement of Activities Net Cost Format

The majority of TIC members did not believe that the current Statement of Activities net cost format information was beneficial. Depending on the entity, the net cost format of the Statement of Activities can be a little misleading, especially since a significant portion of many entity revenues are held within general revenues, so each governmental function can appear to be operating at a large loss, which is then covered by general revenues. TIC noted that governmental

activities rely on tax revenue for support and looking at the net cost without those revenues doesn't seem to be beneficial.

TIC believes that the net cost format is only beneficial for business type activities, but they essentially report it twice already in the financial statements since both the government-wide and fund level BTA use the full-accrual approach. Since governmental activities inherently will likely never recover the costs of the services provided, they almost always show negative balances which is confusing to a general reader of financial statements as if the entity should be doing something differently to make the net cost positive.

TIC does understand that the needs of users of the financial statements for governments are different than those of private or public companies, but also believes that, for those charged with governance for many governmental entities, the net cost format may be confusing.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience. TIC is also pleased to be sending a representative to attend one of your public hearings on these issues in March.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees