



February 26, 2021

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

**Re: June 30, 2020 GASB Proposed Statement, *Financial Reporting Model Improvements [Project No. 3-25]* and June 17, 2020 GASB Proposed Statement, *Recognition of Elements of Financial Statements [Project No. 3-20]***

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 efforts of the Board to improve key components of the financial reporting model. TIC also has appreciated the opportunity to participate in public hearings as well as a number of calls with the GASB staff regarding these EDs. Since the Financial Reporting Model and Recognition of Elements EDs are so closely related, TIC has decided to issue our comments in one letter.

TIC has presented our comments by our deemed level of importance, as follows.

***Presentation of Governmental Fund Financial Statements***

After much discussion, TIC strongly disagrees with use of the terms inflows, outflows, and net flows, and would suggest using different terminology such as fund revenue and fund expenses. TIC believes the term net flows would also need to be adjusted. TIC proposes to move noncurrent fund revenues and fund expenses with their current counterparts, but to break them out in subsections to delineate between the two. This is our preferred option since, under the current format, a government would not be able to see its total fund expenses, an important number, in one subtotal on these statements.

TIC believes the delineation of fund revenues and fund expenses between current and noncurrent activities are a much lower priority to financial statement users. If this is not agreeable, another alternative would be to change the section to net fund revenues/expenses from noncurrent activities.

In TIC's experience, many governments struggled with the adoption of deferred outflows and inflows. This has been somewhat mitigated due to the limited nature for which those terms and concepts are used. The terminology changes proposed in the ED would result in the entire fund statement reporting model being based on the understanding of outflows and inflows. TIC believes, if this method were to be adopted, the terms outflows, inflows, and net flows may solely be used once a year as external financial reporting categories on the audited financial statements. We believe these terms may then be translated incorrectly to revenues and expenses when utilizing the information for all other reasons/statements, resulting in confusion to users of the financial statements, in particular those charged with governance.

TIC recommends GASB work with users of the financial statements to develop less confusing terminology.

***Application of the Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting in Governmental Funds***

TIC believes that the short-term financial resources provides an effective shorter-term look than the government-wide statements. In TIC's 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.

That being said, if the proposed measurement focus is maintained, TIC would appreciate and believes it will be necessary for GASB to more guidance or clarification on flows between current and noncurrent, such as transfers between the two categories. As noted above, TIC does not believe there is significant decision-useful information derived from splitting items such as transfers between current and noncurrent. In practice, a transfer to/from a fund may contain resources for both current and noncurrent purposes.

Aside from transfers, TIC also believes there is a possibility of confusion with use of the terms current/noncurrent and short-term/long-term. Leases is just one of the types of transactions where current vs. noncurrent could result in confusion, for example, short-term leases and how that determination was made.

TIC noticed that a capital outlay is shown as current in one of the examples on page 93, Exhibit 15 of the ED. TIC believes this may be an error and should be corrected in the final standard.

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

Generally, TIC agrees with the proposed changes in this section and did not see any substantive issues.

### ***Budgetary Comparison Information***

TIC disagrees with the need for a variance column based on usefulness for decision making.

TIC also was curious why this would not include all major funds with a legally adopted budget. For example, capital projects and debt service funds usually aren't shown, and it can be argued their budgets are just as, or even more important than special revenue (resource) funds.

### ***Management's Discussion and Analysis***

TIC believes the introduction to GAAP language seems too basic for most financial statement users and also adds length without decision-useful information. In addition, the display of tables has some items condensed. Based on our conversations with GASB, that might not have been the intent so this should be clarified.

TIC also was curious as to whether GASB could provide relief in comparative financial statements to exclude the 3rd year comparison but, rather, just include a 2-year comparison. Adding a third-year results in a long presentation whereby fonts may have to be shrunk to accommodate this third column of data, making the statements more difficult to read and analyze.

TIC also noticed this section doesn't emphasize modernization, and TIC believes that should be considered as well. For example, many governments have published information online whereby a simple link could be provided which would reduce the length of the MD&A and allow focus on some of the more critical information that is most relevant to financial statement users.

### ***Unusual or Infrequent Items***

Statement 62 defines the terms unusual in nature and infrequency of occurrence. This ED notes that these items should be presented individually as the last presented flow of resources in gov-wide and fund statements and should also be disclosed in the notes. TIC believes this is a welcome change and will result in less diversity in practice.

### ***Effective Date***

TIC appreciates the proposed tiered approach and would suggest having an even longer implementation plan for those really small and less complex governments. Typically, smaller governments have less resources in financial reporting departments and likely could benefit from

seeing how the larger governments adopted the standard first and will need as much time as possible to get ready for these major changes.

Perhaps GASB could do some outreach to determine a threshold by which a government would be considered smaller and less complex and therefore have an additional year to adopt the more significant standards going forward. TIC also believes the effective date of this standard should align with changes to reporting of revenue and expenses since they are so closely linked.

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.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek". The signature is fluid and cursive, with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair  
On Behalf of the PCPS Technical Issues Committee