



February 21, 2019

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Preliminary Views (PV) documents, *Financial Reporting Model Improvements* and *Recognition of Elements of Financial Statements*.

While we appreciate that GASB is seeking ways to improve financial reporting for governments and address practice issues, we are not in agreement with either the majority or the alternative view outlined in the PV. The majority of our members (approximately 80%) continue to prefer the near-term approach that was presented in the Invitation to Comment released in December 2016.

We strongly prefer the near-term over either the majority or alternative view because it best answers if a government has sufficient financial resources to cover its already-incurred, upcoming financial liabilities. We believe the near-term approach, with a focus on cash and resources expected to be converted into cash, most visibly provides the accountability of how the government used the resources available to them during the reported period. It is more relatable to budget, which makes financial statements more meaningful to elected officials and constituents. It also has the benefit of being able to rely more on actual data rather than estimates. Further, we believe that the near-term approach was distinctive enough from the accrual basis government-wide financial statements that the governmental fund financial statements would be presenting information not available elsewhere. We believe the near-term approach provides the most value-added information for assessing fiscal accountability. We believe the governmental fund financial statements should continue to reflect a shorter time perspective focusing on financial resources because this will achieve the fiscal accountability objective. We also believe it is important that the governmental fund financial statements present information differently than the government-wide statements; otherwise, there would be no need for the governmental fund statements as basic financial statements.

We question whether the cost and effort needed to implement either approach in the PV (majority or alternative view) will be commensurate to the overall improvements in reporting. The cost and effort would include: analyzing and updating business processes; extensive training on the changes in reporting for staff, state agencies and users of the CAFR; and analysis and modification of the statewide financial system and its report configurations.

We strongly encourage the Board to address the perceived problems with the current model using the near-term approach (not the short-term approach) outlined in the ITC. Alternatively, the Board should consider addressing the problems in the current model by simply "fixing" these inconsistencies with a standard that focuses solely on the specific problems.



Even though we prefer the near-term approach from the ITC, we have the following comments on the PV.

*Chapter 2*

We are concerned that the term "normally" is too subjective and open to wide interpretation. We believe it would cause more inconsistencies and make preparing the financial statements more difficult. The concept of "normally" is subjective, and it requires professional judgment to classify a transaction. When professional judgment is applied, it increases the amount of time to prepare and audit the financial statements as well as the risk for error or inconsistent application.

*Chapter 3*

We disagree with the *Specific Terminology* section proposed in this chapter. We believe that including the term "short-term" in the titles of the statements and the titles for the elements is repetitive and seems unnecessary.

*Chapter 5*

We agree that budgetary comparison information should be reported only as RSI. We believe this will provide consistent reporting across governments and the level of assurance provided on them. It will also allow for users to quickly locate this information.

*Chapter 6*

We agree that major component units should be presented in a combining financial statement after the fund financial statements when it is not feasible to present them on the same page as the primary government. We agree with eliminating the option to present these component units in the notes to the financial statements as users should expect to find this information in the body of the financial statements. We believe this will create more consistency in government financial reporting.

We do not believe that the benefit of adding a schedule of natural classification of government-wide expenses by function or program for governmental activities would justify the cost of creating this schedule. Current software used by some states to prepare CAFRs does not generate this information. In these cases, there would need to be extensive programming changes to software, or this information would need to be calculated by hand, which would be a time-consuming process for larger governments.

*Chapter 7*

We believe the perceived value of the government-wide cash flow statement does not justify the cost to prepare and audit the information. The statement would require input from every state agency and blended component unit. The value of such a statement is questionable since reliable information could not be readily obtained from the accounting system without significant modification and costs. Governments already struggle with the complexity and volume of financial statements, sometimes resulting in untimely issuances of audited government financial statements. Adding a statement of cash flows would only make preparers' efforts tougher and longer and increase the auditors' efforts. The cost in effort and financial statement delays is not worth the benefit of a statement of cash flows.

National Association of State  
**Auditors, Comptrollers  
and Treasurers**



We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (602) 542-5405.

Sincerely,

A handwritten signature in black ink that reads "D. Clark Partridge". The signature is written in a cursive style with a large initial "D" and a long, sweeping underline.

D. Clark Partridge  
President, NASACT  
State Comptroller, Arizona