



March 1, 2021

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 Exposure Draft (ED), *Financial Reporting Model Improvements*.

We are not in agreement with the short-term approach and believe the majority of our members continue to prefer the near-term approach. However, if GASB continues with this guidance, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

Paragraph 8.c.(2)

We do not believe that the benefit of analyzing nonmajor funds, which can consist of numerous funds with different complexities, exceeds the cost to perform these analyses. For a nonmajor fund, the reporting entity has confirmed that balances/activity does not meet quantitative major fund criteria.

Paragraph 8.e.

The requirements appear to place significant emphasis on subjective public policy information as opposed to data that is comparable to the underlying financial statements. For example, information about the subsequent year's budget is subject to change, and therefore may not provide beneficial information to the intended users of the financial statements. Additionally, at the state level, numerous changes occur after the end of a reporting period; therefore, information about actions that the government has taken after the reporting period (such as new lease agreements, PPPs and SBITAs) could be voluminous and distract the users from significant activity that occurred during the reporting period.

Furthermore, the inclusion of economic and demographic data will prove problematic for auditors to compare to the basic financial statements or other supporting documentation obtained during the audit. Hence, including this information would add additional costs that we believe outweigh the intended benefits to users of the financial statements. We believe the Board's current requirement in Section 2200.109.h. of the *GASB Codification of Governmental Accounting and Financial Reporting Standards (Codification)* allows financial statement preparers to focus on presenting timely and faithfully representative financial information as opposed to the proposed change which requires the inclusion of policy information that is obtainable in resources outside of the financial statements.



Paragraph 12

The last sentence states: “All liabilities in this measurement focus are financial liabilities.” This does not clearly define what liabilities are included in the measurement focus. We request that the Board revise this sentence to provide specific examples, similar to the previous sentence about financial assets.

Paragraphs 13 and B32

We are concerned about a proposed major change in practice that will be different from FASB and other standards setters. We disagree with defining short-term “within one year from the inception of the transaction or other event.” We request that the Board maintain the definition of short-term as one year from the date of the financial statements.

Paragraph 18

We believe it is unclear when a binding arrangement might be considered an adjustment to existing terms and conditions or a new binding arrangement. Additional examples would be helpful, especially as they relate to a change in legislation.

Paragraphs 20 and 21

- We ask that the Board provide more clarification for the criteria to classify long-term debt for a short-term purpose. Long-term debt has been issued to finance current expenditures (with a 19-year maturity in one instance). Reporting long-term debt with such a lengthy maturity as a short-term liability could significantly understate fund balance.
- The guidance appears to contradict GASB Statement 62, paragraphs 36 through 43 (classification of short-term obligations expected to be refinanced) which are codified into GASB Codification sections 1500.108-.115 and 1800.115-.122. There is no indication in the ED that these sections of the GASB Codification would be revised for the new financial reporting model.

Paragraph 23

The paragraph discusses amortization; however, it is unclear if governments should report amortization of premiums and discounts associated with tax anticipation notes and revenue anticipation notes reported as governmental fund liabilities.

Paragraph 27

- We request that the Board clarify the terms *current and noncurrent* used throughout the proposed statement, and that these terms are not synonymous with the terms short-term and long-term, respectively. Additionally, further explanation as outlined in Paragraph B55 would help add clarity to the preparer in understanding transfers made for capital asset acquisition or debt service payments that would fall into the noncurrent activities, and transfers made for general purposes not related to debt or capital outlay would fall into the current category.
- We believe the Board should rename the caption “Net flows from noncurrent activities (detailed)” to “Inflows and outflows of resources from noncurrent activities (detailed)” or otherwise clarify that the detailed inflows and outflows that should be reported would not normally be netted.



Paragraph 31

We request that the Board define “principal ongoing operations” because 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.

Paragraph 32

To ensure consistent application, we request that the Board provide additional clarification on what qualifies as a subsidy. Examples of where clarification is needed include: if income derived from an enterprise fund that has minimum required transfers into the General Fund should be considered an outflow of noncapital subsidies, and if it is reasonable to classify all gifts and donations made to a proprietary fund as subsidies when there are specific restrictions on how the funds are used; hence not truly having a direct, verifiable effect on lowering operating costs. Universities and Colleges consistently receive inflows of this nature; however, it would prove difficult to determine if those inflows had a direct impact on charges for tuition and fees.

Paragraph 34

Although we agree with the requirement to report the final budget amount, actual amount and the variance, we believe the original budget, the variance between the original and final budget, or an analysis of variations between the original and final budget would increase costs without an equal benefit to the user.

Appendix C, Transaction #10

We believe the word “net” should be deleted from the transaction description. Pay-as-you-go plans would not have a “net” OPEB liability because no assets have been set aside to offset the liability.

Appendix C

We appreciate the examples provided and believe it would be helpful to include additional illustrations for transactions regarding: payroll, payments for goods/services, receipts for providing goods/services, accounts receivable, accounts payable and collection of taxes.

Appendix D

We request clarification regarding if there is a difference between the Advances liability line item and the previous Unearned Revenue line item.

General Comments

- We encourage the Board to reconsider if additional clarity is provided to users of the financial statements by introducing the terms *inflows of resources* and *outflows of resources*. We do not believe the proposed standard or basis for conclusions sufficiently demonstrates how the use of inflows of resources and outflows of resources are better than the existing terms. As it currently stands, the governmental fund statements would be the only statements to reflect this terminology, hence creating additional confusion for users when comparing governmental fund activity to that presented within the government-wide Statement of Activities. We believe this change will likely confuse the average reader of the financial statements as revenues and expenses are common terms most everyone is familiar with and can easily conceptualize.



- We believe it would be prudent to complete the revenue and expense recognition project and incorporate any modifications into the reporting model and financial statement guidance. The current GASB Technical Plan indicates that the revenue and expense recognition guidance will be issued during the first quarter of 2025. Since the largest governments will be implementing the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* effective for fiscal year 2025, the timing is not optimal. We believe it would be more efficient from a preparer perspective to have the final *Revenue and Expense Recognition* guidance available at least one year prior to implementing the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* guidance. Accordingly, we request a delayed implementation date for the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* to coincide with the *Revenue and Expense Recognition* implementation date.

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 (916) 445-0255.

Sincerely,

A handwritten signature in black ink that reads "Elaine M. Howle". The signature is written in a cursive, flowing style.

Elaine M. Howle
President, NASACT
State Auditor, California