



FLORIDA GOVERNMENT FINANCE OFFICERS ASSOCIATION, INC.

Since 1937

P.O. Box 10270 • 301 South Bronough Street, Suite 300 • Tallahassee, Florida 32302-2270
Telephone: (850) 222-9684 • Fax: (850) 222-3806 • Web Page: www.fgfoa.org

2018-2019 OFFICERS

President

KENT OLSON, CGFO

Deputy Treasurer/Clerk
City of Tallahassee
(850) 891-8082

Kent.Olson@talgov.com

President - Elect

KEN BURKE, CPA

Clerk of the Circuit Court and Comptroller
Pinellas County – CCC
(727) 464-3341

kburke@pinellascounty.org

Secretary – Treasurer

JAMIE ROBERSON, CGFO

Director of Finance
City of Apopka
(407) 703-1725

jroberson@apopka.net

DIRECTORS

ALTON “RIP” COLVIN, CPA, CGFO, CPM

Executive Director
Justice Administrative Commission
(850) 488-2415
rip.colvin@justiceadmin.org

FRANK DIPAOLO, CPA, CGMA

Finance Director
City of Lighthouse Point
(954) 784-3432
fdipaolo@lighthousepoint.com

NICOLE GASPARRI, CGFO

Organizational Program Manager
City of Boca Raton
(561) 789-8236
ngasparri@myboca.us

MIKE GOMEZ, CPA

Audit Manager
Florida Auditor General - Tallahassee
(850) 412-2895
mikegomez@aud.state.fl.us

JONATHAN C. MCKINNEY, CGFO

Director of Finance
City of Holly Hill
jmckinney@cityofedgewater.org

SHANNON RAMSEY-CHESSMAN, CPA, CGFO

Chief Operating Officer of Finance
Clerk & Comptroller – Palm Beach County
(561) 355-4277
slramsey@mypalmbeachclerk.com

WILLIAM SPINELLI, CPA

Controller
City of Orlando
(407) 246-2165
william.spinelli@cityoforlando.net

KELLY STRICKLAND, CPA, CGFO

Director of Financial Administration
City of Sarasota
(941) 954-4124
kelly.strickland@sarasotagov.com

PAUL SHAMOUN

Executive Director

February 14, 2019

David Bean, Director of Research and Technical Activities
Governmental Accounting Standards Board
Post Office Box 5116
Norwalk, CT 06856-5116
Via email: director@gasb.org

Re: Preliminary Views on Financial Reporting Model Improvements (Project No. 3-25)

Dear Mr. Bean:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the *Preliminary Views of the Governmental Accounting Standards Board on Major Issues Related to Financial Reporting Model Improvements (Project No. 3-25)*. These comments were prepared based on a review by the FGFOA members, its Technical Resources Committee and the Board of Directors. We generally agree with most items addressed but have some concerns with the following:

Chapter 2 – Recognition Concepts and Application to Governmental Funds

The FGFOA agrees with the Board's preliminary views regarding recognition in governmental funds and application guidance for specific transactions. We believe the concerns stated by the Board should be addressed by applying the short-term financial resources measurement focus to the recognition of the financial statement elements. Additionally, we agree the recognition concepts and application presented in the preliminary views will most likely result in consistency with the objective of developing a conceptually sound foundation.

As stated by the Board, additional authoritative guidance will be needed regarding the recognition concept of “normally.” We agree that the Board's preliminary view on the concept of normally may potentially enhance the comparability by requiring governments to recognize financial statement elements in a manner consistent with other governments and based on substance rather than form. However, the likelihood of achieving this is rather low given how it is unrealistic to expect all governments to have the resources to be able to know how other governments are universally recognizing financial statement elements.

We recommend the Board replace the concept of “normally” with the stated or contractual maturities of assets and liabilities or the best estimate of the period of receipts absent such stated or contractual maturities. This conceptual approach would allow for a greater amount of preparer and auditor professional judgment while not presenting additional burdens on the Board to provide more

comprehensive guidance that may not result in achieving increased comparability of the financial statements. The lack of a definition of “normally” reminds me of the definition used once by a Supreme Court Justice to describe pornography: I’ll know it when I see it. Unfortunately, I don’t know how that definition can be applied by the various governmental units that have different definitions of what is “normal”.

It is our understanding that paragraphs 21 and 40 would require the *consumption method* for prepaids and inventories and eliminate the *optional purchase method*. Please clarify that our understanding is correct. We request the Board retain the *purchase method* as an acceptable alternate approach for two reasons. In Florida, Constitutional Officers, such as the Sheriff or Tax Collector, are required to return their entire fund balances to the Board of County Commissioners on an annual basis (excess fees) at year-end. Since one cannot return funds that have already been expended, some of these Officers comply with this legal requirement by utilizing the alternate purchase method for their prepaids and inventories. In addition, for governments that use the alternate purchase method for items that are greater than trivial but less than material, it avoids the characterization of these items as “errors” in auditor communications.

Chapter 3 – Presentation of Governmental Fund Financial Statements

We accept the general concept that capital outlay and debt service activity be presented “below the line” because: (a) There is inconsistency in current practice on whether general fund capital outlay should be reported within the functional classifications (where it is usually budgeted) or on a separate line. And (b) While debt service may be a recurring budgeted expenditure, it is not funding a current year service, so it should not be an *operating* expenditure. It is also not subject to management control *in the short-term*.

We believe some of the “specific terminology” in paragraphs 7-14 will confuse readers of the financial statements. For example, “Short-Term Financial Resources Balance Sheet” and “Statement of Short-Term Financial Resource Flows” may confuse those who want to read the financial statements but do not have knowledge of Governmental Accounting. We prefer keeping terms such as *balance sheet* and *statement of revenues and expenditures* as well as keeping the current *revenues* and *expenditures* rather than the new *inflows of short-term financial resources for current activities* or *outflows of short-term financial resources for current activities*. If you are compelled to create new titles, please make them shorter and simpler titles.

Adding an explanation to the top of the balance sheet and the financial resources presentation will not help clarity and will increase confusion. If the concept needs to be explained, it’s better to put it in the Notes. After a few years of the new format, there will be no need to provide such an explanation in any place other than the Notes.

Chapter 4 – Presentation of Proprietary Fund Financial Statements

In paragraphs 3-9, we like the new format proposed for the Statement of Revenue, Expenses and Changes in Net Position as well as the addition of a *Subtotal for Operating Income (Loss) and Noncapital Subsidies* for the following reasons: (a) It is very similar to the current format and should not require significant costs to implement, and (b) The creation of the new section on *noncapital subsidies* which would include operating grants and operating transfers is an improvement over the current format. The subtotal of *operating income (loss) and noncapital subsidies* can be a useful number for management/user analysis and benchmarking.

We see the benefit of the new concept of defining nonoperating revenues and expenses, which in turn defines operating revenues and expenses as everything else. However, the definition should be further clarified. Consider adding a fifth “category (e)” to the definition of operating revenues and expenses in paragraph 3:

... and (e) other large nonroutine or nonrecurring revenues or expenses that do not meet the definition of operating revenues or expenses under the issuer's debt covenants or other policies.

We understand that the *recurring and nonrecurring approach* and the *debt covenants approach* were rejected by the Board in favor of the *subsidized approach*. But the addition of this item (e) will allow a primary benefit of the two rejected approaches to be realized without compromising the benefits of the *subsidized approach* that the Board ultimately selected.

Here are some examples: A Florida city this past year had a large \$4 million noncapital water plant "Lime Sludge Removal" project that was a one-time cost. In an earlier year, an adjacent municipality had a \$10 million write-down of costs on a sewer lift station capital project. These examples both involved nonrecurring expenses not considered operating expenses for debt coverage calculations. Further, to include these items in operating expenses under the *subsidized approach*, would cloud the analysis of whether operating revenues are sufficient to fund annual *recurring* operating costs, and/or whether subsidies are required. Another example of a large nonrecurring, nonoperating revenue could be a large legal settlement.

Chapter 5 – Budgetary Comparison Information

We have suggestions in two areas: the method of communication and the presentation of budget variances.

Paragraph 3 in the *Method of Communication* section states, "The Board's preliminary view is that a government should be required to present budgetary comparison information using a single method of communication, and it should be reported as RSI." We agree that budgetary comparison schedules for a government should be required to be a part of the Required Supplementary Information (RSI). This single method of communication would provide the end user an easier comparability between governments by consolidating budgetary statements in the RSI for all governments. Having the budgetary comparison schedules required within the RSI would create a minimal burden on governments and improve the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability.

Paragraph 7 in the *Presentation of Budget Variances* Section states, "The Board's preliminary view is that a government should be required to present the variances between (a) final budget and actual amounts and (b) original and final budget amounts as part of the budgetary comparison schedule." Providing specific requirements of budgetary schedules as RSI should be of minimal burden on governments and useful for the end user in its consistency among governments. Per GASB Statement No. 34, the budgetary comparison schedule should present both the original and final budgets for the reporting period as well as actual amounts. Governments currently provide the *Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund*, within their basic financial statement section, showing the original and final budgets, and actual amounts with the variance of final budget and actual. This is the column layout that should be followed in the RSI for the final-budget-to-actual variance schedules.

The original-budget-to-final-budget variance schedules would provide a useful correlation to the final-budget-to-actual variance schedules and allow the financial statement reader to identify budget amendments or resolutions or any uncommon or nonrecurring events. The Board is correct in stating the original-budget-to-final-budget schedule helps users assess accountability that goes beyond a government's ability to appropriately forecast.

Currently the format recommended is the revenue and expenditure categories may follow either that used in the statement of revenues, expenditures, and changes in fund balances or the format the government uses in its budget. The format of the statement of revenues, expenditures, and changes in fund balances would be preferred since it ties it in to the statements prepared on a GAAP basis. Additional clarification specifying a required format would be appreciated.

We recommend the following sentence be added to the end of paragraph 7: “Encumbrances rolled forward from the preceding year should be included as variances.” Current standards require the encumbrance roll be included in the original budget column (GAAFR, page 197). However, in practice, they are often put in the amended budget column because some governments prefer the original budget column to agree with the published budget document. We would appreciate the Board’s guidance on whether the encumbrance roll should be presented in the Original Budget column, Amended Budget Column, or Variance Column.

Chapter 6 – Other Issues

In the “Communication of Major Component Unit Information” Section, we have the following comments: In paragraph 2, we agree that if it is not feasible to present major component unit financial statements in a separate column in the statement of net position and statement of activities, then they should be presented as combining financial statements. We also agree that condensed major component unit financial statements in the notes should be eliminated. In paragraph 3, we agree that a single method of communication for all users would enhance consistency. In paragraph 4, we agree that the major component unit information should be presented either on the face of the government-wide statements or in combining financial statements.

In the “Schedule of Government-wide Expenses by Natural Classification” section, we do not agree that this natural classification schedule should be required as supplementary information as shown in paragraphs 8 and 9. This schedule of natural classification would place an undue burden on financial statement preparers and auditors because the “modified accrual to accrual conversion” entries used to prepare government-wide financial statements would need to be tracked at the detail natural account level. In addition, the fund financial statements already have natural classification information. Recreating natural classification information at the government-wide level is redundant **without** really providing useful information.

There may be classification inconsistencies among governments which will distort comparability. A lack of natural classification definitions could lead to variations in how expense classification and functional areas are presented. If clear and tight definitions are required, it would create an ongoing burden on the GASB to provide clarifications as new situations arise or are brought forward. Also, since the enterprise funds are already shown separately in the financial statements with natural classifications, there really is no need to show them separately again as business-type activities in Supplemental Information.

This natural classification schedule will also cause a reconciliation issue between this Supplemental Information and the audited financial statement expenditures. For example, a natural classification line in Supplemental Information might include allocations for pensions, OPEB, depreciation, interest, etc., whereas the same natural classification line in the fund financial statements would not include these allocations. There is a concern that governments may not allocate pensions, OPEB, depreciation, interest, etc., consistently. It also makes the MD&A more complicated. The schedule will take extensive time to prepare, increase costs, delay the issuance of the financial reports, and provide little, if any, beneficial information to users.

Chapter 7 - Alternative Views

We agree with some of the alternative views stated in chapter 7. We agree with replacing the concept of *Normally* described in paragraphs 10-12, since there are many varying transactions among governments. Reporting a transaction in the financial statements as anything other than the actual provisions of that transaction are misleading.

We do **not** agree with the alternative view that proposes a Statement of Cash Flows at the government-wide financial statement level; rather we agree with the preliminary views that it should not be included. The cost of preparing such a Statement far outweighs its benefit to the user.

Appendix C: Comparison of the Current Financial Resources Measurement Focus with the Short-Term Financial Resources Measurement Focus—Discussion of Selected Transactions and Other Events

For greater clarity, we recommend the GASB add the following examples to the list of examples presented:

- Long-term interfund receivables and payables (advances)
- Interfund capital asset transfers
- Nonoperating interfund transfers, such as cash transferred for capital purchases or to pay down long-term debt
- Reclassification of an asset or liability from current to noncurrent or vice versa

Appendix D: Illustrations

In Appendix D, the new short-term financial resources financial statements are shown with their respective reconciliations to either the Statement of Net Position or Statement of Activities, but the Statement of Net Position and Statement of Activities themselves are not shown. By including examples of these two accrual-basis financial statements, it would be easier for those unfamiliar with governmental accounting to grasp the material being presented.

We also think it would be extremely helpful to have an example of how the budgetary comparison information should be presented, especially the new original to final budget variance column.

We thank the GASB for its efforts in preparing this preliminary views document and for the opportunity to respond. Please feel free to contact me at (850) 891-8082 or kent.olson@talgov.com regarding the comments above.

Sincerely,



Kent Olson, CGFO
President