



## GOVERNMENT FINANCE OFFICERS ASSOCIATION OF TEXAS

Via e-mail: GASBScope@f-a-f.org

April 24, 2013

Dear FAF Trustees

The Financial Reporting and Regulatory Response Committee of the Government Finance Officers Association of Texas (“GFOAT”) would like to take this opportunity to respond to *“GASB’s Scope of Authority: Proposed Changes to Agenda-Setting Process”*. The GFOAT is an affiliate of the national Government Finance Officers Association (“GFOA”) and the Texas Municipal League. The GFOAT’s almost 1,000 members represent all levels of state and local government in Texas. Additionally, GFOAT membership represents associate members from the audit profession, the investment and underwriting community, and a variety of other private-sector finance professionals.

In reviewing the proposed changes, we are very appreciative of the Foundation’s desire to balance the need for an independent and rigorous standard setting process with the equally strong need to focus GASB’s efforts on their core mission. While we have been a strong supporter of independent standard setting and of GASB throughout the years we have also become increasingly concerned regarding the volume, complexity and broadening scope of GASB’s standards. We believe these trends have ultimately hurt the understandability, usefulness and timeliness of financial reporting. We have included as an appendix to this response our letter dated September 2011 expressing many of these concerns. **It is in this context that we express our strong support for the proposed changes and find very little about it to criticize.**

It is also our understanding that the newly appointed GASB chair has indicated his desire to re-examine GASB 34. As stated in the appendix, we believe there should be a high threshold for re-examining and changing existing standards. We also believe that the complexity of certain aspects of the reporting model combined with the lack of identified users and uses, warrant this re-examination. However, we cannot envision a meaningful re-examination of GASB 34 that would not involve an undoing of recently passed standards.

From this perspective, we would encourage GASB to begin this new era of narrowed focus and a new chairperson with a re-examination of the conceptual framework. Specifically, we feel that the examination of several concepts either explicit or implicitly contained in the framework that have been most controversial would be valuable. This re-examination could certainly study the usefulness of the current reporting model as well as the type other information that is most useful to users. Once complete, all stakeholders and GASB itself would have a better understanding of intended direction and

the changes required to better meet user needs. This approach will also slow down the pace of change and avoid the impression that the new administration is simply “undoing” everything issued by the previous Board. Such an impression could ultimately harm the integrity of financial reporting. GFOAT would be happy to participate in this re-examination through normal due process channels.

In the mean time, we would suggest to GASB, a moratorium on effective dates for GASB 63 and 65 dealing with deferred inflows and outflows until fiscal year ending (FYE) June 2015. As the non-government Trustees may not know, Statement 63 which is effective FYE December 2012, changes the name and format of the Statement of Net Assets but does nothing else until a year later when Statement 65 become effective. Even with the implementation of GASB 65, there will be little substantive impact (other than terminology) until the implementation of GASB 68 on Pensions for FYE June 2015. If the results of the re-examination make it unlikely that any of these statements will be changed, little will be lost from the delay and all three statements can be implemented simultaneously for FYE June 2015 and forward. However, if change is needed, GASB will have avoided implementation of a standard that it changes a short time later.

We want to thank the Foundation for the opportunity to provide feedback on this proposal.

Respectfully:

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## Appendix A

### GOVERNMENT FINANCE OFFICERS ASSOCIATION OF TEXAS

September 23, 2011

Director of Technical and Research Activities  
Governmental Accounting Standards Board  
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RE: Project No. 30-20

The Financial Reporting and Regulatory Response Committee of the Government Finance Officers Association of Texas (GFOAT) would like to take this opportunity to respond to GASB's Preliminary Views on concepts related to "*Recognition of Elements of Financial Statements and Measurement Approaches*" The GFOAT is an affiliate of the national Government Finance Officers Association and the Texas Municipal League. The GFOAT's almost 1000 members represent all levels of state and local government in Texas.

The GFOAT appreciates the need for a conceptual framework that provides for consistency of standards and continuity of direction. However, as discussed below, the committee has very real concerns that the Board's most recent concepts statements may be the equivalent of an architect drawing up plans for a building when it is already 95% built. Implementation of these plans would result in wholesale demolition or remodeling of construction that only recently has been completed. This response will discuss these concerns and then acknowledging that the GASB may not agree with the committee, we will suggest specific improvements to the PV proposal.

#### ***REPORTING RESOURCES IN GOVERNMENT AND THE PACE OF CHANGE***

**Financial Reporting Resources.** It is a fundamental fact of local government that direct services to citizens always receive a higher budget priority than back office operations such as finance in general or financial reporting in particular. During the recent economic downturn (aka-the great recession) government finance departments nationwide were forced to reduce staffs, slash training and forgo computer hardware and software upgrades. However, during this same period regulation has increased dramatically, states have reduced support and increased financial transparency laws, the federal government has increased grant compliance and reporting requirements, Dodd Frank has increased the authority of the SEC and citizens generally unhappy with all levels of government are venting their frustrations on the most accessible level of government, city, county and school district officials. These trends make it increasingly important for GASB to carefully consider the cost and benefits of new concepts and reporting approaches because many governments simply do not have the resources to properly implement new standards that require dramatic changes in direction.

**Pace of Change.** Consistency is an important aspect of effective and useful financial reporting standards. When methods change frequently, trend information is not comparable and becomes confusing and possibly misleading. Even comparing just two years of financial information becomes

## Appendix A (continued)

burdensome as a disproportionate amount of effort is expended on the “form” rather than the “substance” of the numbers. Users who often took years to understand the meaning and best use of today’s financial reporting may require even more time to understand a new basis or may simply give up. Preparers will also struggle with rapid change as systems or processes recently installed for previous GASB standards must now be completely updated or replaced and reporting checklists keep getting longer. As the Committee reviews proposed standards, it has become obvious that the pace of change is increasing dramatically.

GASB Statement 34 which became effective between 2002 and 2005 created the Statement of Net Assets (SNA) for governmental activities. GASB Statement 63 replaced the SNA in June with the Statement of Net Position. GASB Statements 43 and 45 which became effective in 2007-2010 represented a monumental change in how governments account for retiree health benefits. With the issuance of the pension EDs and the addition of the OPEB reexamination project to its technical agenda, GASB has clearly signaled that these two standards will be replaced in the next few years. This PV is the latest example of short lived concepts and standards. The concept of near term financial resources for governmental funds described in the PV make obsolete the “Non-spendable Fund Balance” category that was created by GASB 54 and that many government’s are just now implementing. Implementing a standard when GASB has already signaled its partial or complete replacement is discouraging and will undoubtedly impact how seriously preparers and their auditors take the new standard. It is also difficult not to speculate as to the potential “shelf life” of the new standards being issued and implemented as GASB continues its periodic reexamination of current GAAP and the composition and philosophical leaning of the Board changes over time.

In light of the limited financial reporting resources of state and local governments and the negative impacts associated with rapidly changing concepts and standards, the Committee agrees with the Alternative View and does not find a compelling reason why these Preliminary Views provide an improvement in financial reporting as compared to current practice. Standard setting does not exist in a vacuum and it is often more important to step back and examine the pragmatic issues related to the entire “forest” rather than the specific “tree” being proposed currently.

**Near Term Financial Resources.** If GASB chooses to pursue its Preliminary Views, the committee feels that Near Term Financial Resources could be substantially improved by linking it closely to financial information that is useful for budgeting. Note that we are not saying that GASB should set standards or dictate the basis in which a government budgets. However, providing information useful for budgeting will enhance the user’s understanding of how governments actually operate and therefore increase their ability to understand the Budget and Actual Statements/Schedules. Funds originated as a means of budgetary control and legal compliance. Many current budget practices are the result of years of trial and error and best practice benchmarking to other governments. They are both practical and representational faithful of how a government operates.

As GASB advances its conceptual framework, more and more GAAP is becoming “one day a year” standards that are employed only at year end and only for GAAP reporting purposes. Linking the proposed measurement focus to information useful for budgeting will increase both its relevance to the average user and the likelihood that governments will incorporate it into interim financial reporting.

## Appendix A (concluded)

**Symmetry** The proposal to remove any non-near term financial assets from governmental funds and report them only in the government-wide statements may seem appealing at first glance. However, it is fraught with unintended consequences such as the different materiality thresholds in the government wide statements permitting such information to be viewed as immaterial. Thus the “symmetry” approach should be carefully considered before being included in a concepts statement that will no doubt be the blueprint for changes coming soon from the GASB.

**Measurement Approaches.** Defining the circumstances in which “Remeasured Amounts” vs. “Initial Amounts” are used and useful is an interesting discussion and may help fill in a missing piece of the conceptual framework.

### **CONCLUSION**

State and Local Governments are under unprecedented financial pressure and public scrutiny that provides finance officers less time and resources for financial reporting. In this environment, it is still vital that accounting and reporting standards should evolve and improve with the changing environment. However, it appears to the committee that the GASB has crossed the line from evolution to revolution with a pace of change that is too rapid for preparers, users and auditors to absorb. This rapid change is ultimately detracting from both the consistency and usefulness of financial reporting. We encourage the GASB to examine its proposed standards in light of the operating environment and financial reporting resources of governments by applying a high cost benefit standard before requiring wholesale change.

In sports, the call on the field always receives the benefit of the doubt and is only over-turned when there is “irrefutable visual evidence” in the instant replay booth that the original call was incorrect. This protects the integrity of both the officials on the field and the game itself. So too should the integrity of external financial reporting be protected by giving existing GAAP the benefit of the doubt. A very high threshold for justifying wholesale change should exist and preference should always be given to improving the current standard through evolutionary changes to the current approach rather than wholesale changes.

Respectfully:

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