



National Association of State Boards of Accountancy

---

◆ 150 Fourth Avenue, North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4201 ◆ Fax 615.880.4291 ◆ [www.nasba.org](http://www.nasba.org) ◆

February 16, 2021

Governmental Accounting Standards Board (GASB)  
Director of Research and Technical Activities, Project No. 3-25  
Via website: [director@gasb.org](mailto:director@gasb.org)

**Re: Proposed Statement of the Governmental Accounting Standards Board:  
Financial Reporting Model Improvements**

Dear GASB Members and Staff:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Proposed Statement of the Governmental Accounting Standards Board (GASB): *Financial Reporting Model Improvements* (Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories. Our comments on the Exposure Draft are made in consideration of the Boards' of Accountancy charge as regulators to protect the public interest. In furtherance of that objective, NASBA offers the following comments on the Exposure Draft (ED):

**General Comments**

NASBA supports the GASB's efforts to improve key elements of the government financial reporting model. We agree that the proposed changes would improve the model's effectiveness by providing information that is essential for decision making and assessing a government's accountability.

In the ED, GASB notes that management's discussion and analysis (MD&A) should be written in a manner that can be understood by users who may not have a detailed knowledge of governmental accounting and financial reporting and cites the conceptual framework, which discusses the users of government financial reports. In moving forward with the new model, we suggest the GASB continue to underscore the conceptual underpinnings of the changes, specifically, that MD&A is intended for all users, while the financial statements may include terminology and concepts that are more readily understood by the experienced user of government financial statements.

Our comments regarding various elements of the ED follow:

### **Management's Discussion and Analysis (MD&A)**

NASBA believes that enhancements in this area, including the reduction of boilerplate language and writing MD&A more plainly, would greatly improve financial reporting and benefit users. In addition, we encourage GASB to identify and articulate the principle underlying management's communication of its views on the financial statements, especially aspects of the financial statements that had impacted management's decision-making.

We offer specific comments on two paragraphs in the ED for your consideration:

Detailed Analyses (par. 8(c)(1) on page 6 of the ED) states that, *"The analysis also should include facts, decisions, or conditions about which the user may not be aware, with the understanding that not all users may be from the government's geographical area."*

Since it is not possible to gauge what a user does not know, NASBA suggests revising this paragraph to state: *"Management should not omit facts, decisions, or conditions on the assumption that users are already aware of them."*

Detailed Analyses (par. 8(c)(2) on page 7 of the ED) states that, *"An analysis of balances and transactions of each major fund and nonmajor funds in the aggregate to assist users in assessing whether fund balances or fund net position have improved or deteriorated as a result of the year's operations."*

Though we support the concept, we are concerned that the terms may not translate well to all users. For example, *"deteriorated"* has a particularly negative connotation and less sophisticated users may misinterpret it.

### **Unusual or Infrequent Items**

NASBA agrees that the identification and disclosure of "unusual" and "infrequent" items should be elevated in the financial reporting model. We believe that enhanced guidance on what items would be considered unusual and/or infrequent would be helpful.

## **Presentation of Government Fund Financial Statements**

NASBA agrees that state and local governments should present a short-term financial resource flows statement for governmental funds using the current and noncurrent activity format.

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

NASBA believes this considerable shift in focus - reporting elements of financial statements from a short-term perspective that is uniform across governments - will improve the government financial reporting model. Defining what is considered “short-term” is crucial and we believe clarifying this term further would be beneficial. For example, the period covered by “a short-term transaction” may not be the same as a period of “short-term and long-term analyses of the government’s activities.” Implementation guidance would benefit preparers who may struggle to understand these concepts.

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

NASBA agrees that distinguishing operating from nonoperating revenues and expenses will enhance the comparability of government financial statements and benefit users’ understanding of government activities during the year. We suggest the standard explicitly state that governments may present additional subtotals within these categories, if management believes doing so would be beneficial to users’ understanding of the government’s activities during the year. Reporting non-capital subsidies in the proprietary fund statement and incorporating how operating income/loss information is reported will also be extremely valuable.

## **Budgetary Comparison Information**

The key to transparency lies in reporting on how a government performed compared to its budget. NASBA agrees that governments should present variances between final budget and actual amounts, and separately present variances between original and final budget amounts.

NASBA also agrees that explanations of significant variances being included in the notes to required supplementary information (RSI), including MD&A and supplemental information (as applicable), will further enhance transparency.

NASBA suggests that the GASB continue to provide an option for governments to determine whether to include budget comparisons as basic financial statements, and to allow fund types other

than general and special revenue funds to be included to further demonstrate budgetary compliance.

NASBA is not fully convinced that placing this information in RSI would be more meaningful to users than including the information in MD&A. A well-written MD&A is useful as an executive summary of a year's operations. Our concern is that readers may not pay attention to the budgetary comparison information if it is presented elsewhere in financial statements as RSI.

### **Restating Financial Statements for All Prior Periods**

NASBA recognizes that restating all prior periods to retroactively reflect the application of the new reporting model can provide benefits, particularly to the more sophisticated users of governmental financial statements. However, other users may be confused by such changes. At a minimum, we agree that governments should restate all periods presented in the financial statements. NASBA recommends that GASB consider allowing governments to assess whether restating financial statements for periods over a longer time (for example, 10 years) would be most valuable to the users of the government's financial statements.

### **Effective Date**

Given the significance of the changes to the financial reporting model, NASBA recommends the GASB stagger the effective dates so they are two (2) years apart, similar to the process currently employed by the FASB. This approach would allow smaller governments and audit firms an additional year to observe the larger governments' reporting under the new model.


Finally, NASBA suggests that GASB develop illustrations that are relevant to small local governments (those with less than \$25,000,000 total annual revenues) and special purpose governments such as financing authorities and special districts. We believe these smaller governments would benefit greatly from having a starting point for drafting their financial statements under the new financial reporting model.

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



A. Carlos Barrera, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO