

February 25, 2021

Director of Research and Technical Activities
Project No. 3-25
director@gasb.org

RE: Financial Reporting Model Improvements

Dear GASB:

The views expressed herein are written on behalf of the Professional Standards Committee of the Texas Society of CPAs. The Professional Standards Committee (PSC) has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our comments below on the above-referenced exposure draft.

The PSC thought the exposure draft on Financial Model Reporting Improvements was difficult to navigate due to repeated use of references to other pages in the document and other standards. Overall, the PSC does not think that a comprehensive new financial reporting model is warranted and that the desired reporting improvements may be achieved by making modifications to the existing model.

GASB appears to be intent on eliminating the budgetary basis of reporting that users rely on for assessing operations of governmental and nonprofit entities. The PSC thinks this is not advised and agrees with the alternative view presented in Appendix B of the exposure draft that states "It further severs governmental fund accounting and reporting from their budgetary counterparts." The PSC believes that financial statements of governmental and nonprofit entities should continue to be presented in a manner that governing boards and constituents can understand. We do not understand the driver behind the development of a completely new financial model that will be difficult to explain to governing boards and constituents.

Additionally, the PSC would like to mention other areas of concern:

- Additional criteria and guidance concerning presentation would be helpful to the preparers and auditors of financial statements prepared under the proposed model. Also, GASB emphasizes eliminating redundant information in financial statements when presenting the information in multiple areas enhances understanding of the readers of the statements.
- The definition of "unusual and infrequent" needs additional clarification and examples provided. As currently explained in the draft, the interpretation would result in inconsistencies of application as these terms would have different frames of reference for different entities.
- The PSC thinks that as a result of this proposed financial reporting model and the \$75M threshold for adoption that fewer governmental and nonprofit entities will obtain annual audits of their financial statements.

- The move to a substantially short-term reporting model will result in inconsistencies in reporting. For example, the proposed model includes reporting long-term debt for short-term projects as a short-term liability, despite the length of the liability. This will result in disconnected association between liabilities and assets.
- Governing boards and constituents that understand the current financial reporting model will be confused by the proposed mezzanine reporting structure.
- The effective date will be problematic and there will be an undue burden on smaller entities, despite being below the \$75M threshold. More time is needed to implement such a major overhaul to current reporting practices. Also, many entities below the threshold will be required to implement the proposed model since their financial statements are rolled up to larger entities.
- The examples provided in the Appendices did not include tax receivables, which are a major source of revenue for many governmental entities. Examples including tax revenue would be helpful to clarify the application of this proposed model.

We appreciate the opportunity to provide input on this Implementation Guidance.

Sincerely,

A handwritten signature in black ink, appearing to read "Lyle C. Joiner". The signature is fluid and cursive, with a large initial "L" and "J".

Lyle C. Joiner, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants