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Via email to [director@gasb.org](mailto:director@gasb.org)

March 3, 2021

RE: Invitation to Comment: Exposure Draft of a proposed Statement relating to Financial Reporting Model Improvements, Project No. 3-25

Dear David:

The National Federation of Municipal Analysts (NFMA) is pleased to respond to the request for comments on the proposed Exposure Draft, Financial Reporting Model Improvements, Project 3-25, issued by the Governmental Accounting Standards Board (GASB).

The NFMA is a not-for-profit association with over 1,200 members in the United States, comprising a broad range of municipal bond analysts from the buy-side, sell-side, rating agencies and bond insurers. The mission of the NFMA is to enhance the professional development and analytical contributions of municipal market participants through best-in-class educational programs, networking opportunities and targeted advocacy that supports improved disclosure to benefit the industry. The NFMA has published an extensive library of Best Practices in Disclosure and White Papers which are available on our website, [www.nfma.org](http://www.nfma.org).

The NFMA supports the GASB's efforts to improve the transparency and quality of financial information available to help users of financial statements more accurately evaluate the credit attributes, trends and fiscal health of governmental entities. The comments that follow are made in recognition of the clear alignment of interests that exists between the GASB's mission to establish and improve standards that will result in useful information for users of financial reports, and our professional needs as analysts of municipal credit risk.

As described, the Exposure Draft seeks to modify existing accounting and financial reporting requirements to create a better foundation for the short-term financial resources measurement focus and accrual basis of accounting in governmental funds. This would replace the existing current financial resources measurement focus and the modified accrual basis of accounting used in creating fund financial statements. The Exposure Draft also recommends other changes to the management's discussion and analysis, the determination and presentation of unusual or infrequent items, accounting basis and nomenclature used in the creation of governmental fund financial statements, elements included in the proprietary fund statement of revenues, expenses, and changes in fund net position, and presentation of budgetary comparison information.



*The NFMA has offered comments and suggestions for each of the proposed changes described in the Exposure Draft:*

## **Management’s Discussion and Analysis**

The NFMA is hopeful that the GASB’s renewed commitment to providing updated guidance on how a reporting entity can write an informative management’s discussion and analysis (MD&A) may result in MD&A’s that will provide users of differing financial acumen insight into the “why” of the reporting entity’s financial performance and the “what” that management is going to do in future to address its challenges and opportunities.

The NFMA is in agreement with the enhancements to MD&A in the Exposure Draft. Following are some additional suggestions:

- Encourage use of charts, graphs and tables. Encourage less narrative and a greater use of charts, graphs and tables in the MD&A, which as currently proposed remains extremely lengthy. A visual presentation is more accessible to users and aligns with the GASB’s objective of making the MD&A understandable to a wide range of financial statement users.

For instance, we would call to the GASB’s attention the charts and illustrations found in the 2019 financial statements of the City of Largo, Florida. The GASB pie chart illustrations (Figures A-3 and A-4) that break down the percentages of major revenues and expenses is limited to only one year’s performance, making trend analysis difficult to accomplish, save lining up several year’s audits. In comparison, the City of Largo’s use of a line chart tracks multiple years’ worth of revenue performance as a percentage of total revenue broken down by revenue type provides a deeper insight into financial performance. While a ten-year historical presentation may not be necessary, it would be helpful to provide illustrations that pertain to more than just one year’s performance, for instance, three to five years. The prolific use of charts and graphs produces a more concise narrative which is more focused, and when read in conjunction with the charts and graphs, provides the reader a more holistic view of the reporting entity’s financial performance over a longer period of time. That said, the NFMA believes it to be critically important that the MD&A informs the user where the entity’s finances and operations are positioned today, and where they are headed in the upcoming two-three years. Illustrations speaking to a longer history of financial and operating performance, could be encouraged to be provided in Supplementary Information.

- Require Environmental, Social & Governance (ESG) risk disclosures. ESG risks are of increasing importance to readers. The GASB should develop a framework to guide issuers on how to sufficiently disclose ESG risks and remedial initiatives. At minimum, issuers should disclose prospective ESG risks informed with relevant examples of the past, and provide some magnitude of impact.



- The addition of known facts, not part of the earlier MD&A disclosures, is a welcome inclusion. Such additions include: material pending litigation; material uninsured casualty events; material budget matters; material capital projects; status of capital improvements budget/funding; material changes in federal/state regulatory changes, and funding of government; material federal/state investigations; any known material losses of business; any known material flooding/weather events; material changes to labor contracts and disputes; rating changes and the rationale supporting rating changes. Each of these disclosures will be beneficial in helping to provide context for operating and financial performance.
- Require issuers to assess and disclose the level of support for liabilities secured by component unit revenue. Issuers should quantify the amount of debt or debt-like obligations at component units, and opine on the level of support it is willing and able to provide in the event such liabilities cannot be serviced from component unit revenues.
- Require issuers to indicate their financial priorities. While year-over-year comparisons are often helpful, they can lose meaning if the same financial highlights are reported annually, without acknowledging changes in governmental priorities. In addition to discussing their own priorities, major statewide initiatives that will have a material impact on their financial performance should be disclosed.

### **Unusual or Infrequent Items**

- Identification is useful in developing trend analysis. The NFMA supports the reporting and placement of an unusual or infrequent item in the General Fund budgetary comparison statement as illustrated in Exhibits 15 and 17 of the Exposure Draft. Reporting unusual or infrequent items as a separate component of income from continuing operations is valuable since it isolates those events/items that are not associated with normal operations or financial performance. The identification of these items will be helpful in developing a consistent year-over-year trend analysis.
- Management's level of control is significant. Discussion of unusual or infrequent items in the notes to the financial statements, especially whether the items are within the control of management, is useful to users.

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

- Exclude the reference to the short-term financial resources measurement focus in the heading of financial statements. The inclusion of the measurement focus in the heading of financial statements is unnecessary, as this information is already captured in the notes to the financial statements. Furthermore, the reference to short-term financial resources in the heading of financial statements may unnecessarily confuse the users of financial statements that are less familiar with this measurement concept.



- Refrain from renaming aspects of financial reporting. Terminology such as revenues and expenditures are familiar to users of financial statements, and are more readily understood than terms such as “outflows” and “inflows.” We encourage GASB to maintain existing terminology to avoid potential confusion.
- Disaggregate certain financial reporting. We generally hold a favorable view of separately reporting inflows of resources and outflows of resources related to the purchase and disposal of capital assets and the issuance and payment of long-term debt from the other activities in governmental funds. Purchase and disposal of capital assets and the issuance and payment of long-term debt are sometimes significant, non-recurring events that can materially skew financial results. The disaggregation of these line items provides the analyst with the flexibility to make the appropriate adjustments to better assess the financial health of the local governmental unit.

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

- Proposed changes represent a paradigm shift. While we generally agree that the prescribed application of full-accrual accounting would support the recommended transition toward a short-term financial resources measurement focus, given the timeliness of disclosure and the significant cost and effort needed to support this transition, we question the value afforded by its implementation.
- Comparability not fully addressed. While the proposed transition attempts to eliminate the non-comparability of financial statements, as others have commented, the comparability with the historical financial statements among governments outweighs the benefits associated with implementing the changes proposed in the Exposure Draft.
- Short-term financial resources measurement focus. Rather than changing the entire measurement focus, consider requiring the addition of a short-term resources financial statement, especially for issuers of short-term paper. The focus on short-term financial resources and financial resources flows would be supported by certain members of the analyst community, especially when analyzing credits looking to issue cash flow notes (e.g., BANs, TANs, RANs).

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

- Distinguishing between operating and nonoperating amounts is beneficial. The decision that the proprietary fund statement of revenues, expenses, and changes in fund net position should continue to distinguish between operating and nonoperating revenues and expenses. This is helpful in understanding the self-sufficiency (self-funding nature) of the specified



business-type activity. Additionally, the NFMA views the definition of a subsidy and its addition as a nonoperating revenue and expense as illustrated in Exhibit 8, positively.

### **Budgetary Comparison Information**

- Single method of communication is positive. The requirement to provide an analysis of significant variances in notes to the required supplementary information (RSI) rather than the MD&A is helpful and more user-friendly. However, the level of details reported by issuers on the budget variances can vary. The exhibit examples in the Exposure Draft are adequately detailed, but we note that the level of detail currently provided varies among issuers. Requirements or guidance on the level of detail that should be provided by issuers would be helpful to ensure greater consistency.

We also agree with including the comparison of the original budget to the final budget and the final budget to actual amounts. Having access to all three comparisons provides insight on management's budget practices and can also highlight unanticipated costs such as the one highlighted in Exhibit 17 (sizable increase in public safety costs from original to final budget).

- Require disclosure of next fiscal period budgets. The NFMA suggests that the GASB require issuers to disclose next fiscal period budgets. While past financial performance is important, ultimately it is used to inform an expectation on future performance. Inclusion of the budget, as well as contextual information such as assumptions used, will better inform readers' understanding of expected performance.

We thank you for the opportunity to provide our comments on this Exposure Draft, and would be happy to discuss our feedback in greater detail in follow-up communications.

Sincerely,

/s/

Anne Ross  
NFMA Chair

/s/

Lisa Washburn  
NFMA Representative to GASAC

