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Via email: director@gasb.org

Re: Project No. 3-34, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*

Dear Mr. Skelton:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the revised GASB Exposure Draft (ED) on Project No. 3-34, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. The comments below were prepared based on a review by the FGFOA members, its Technical Resources Committee, and the Board of Directors.

We generally concur with the guidance offered in the Exposure Draft and are of the opinion that it will prove to be helpful to establish consistent accounting and financial reporting standards for Government Financial Statements. However, we offer the following items for your consideration:

In our response to the original ED, we noted that Paragraph 7 states that the purpose of the notes and financial statements among other legitimate items is for "social or political" decision-making. In Paragraph B13, GASB acknowledges these concerns but dismisses the concerns due to the diverse uses of the financial statements and because the Board believes that the Concept Statement "appropriately limits" the information to be included in note disclosures. The Board further states in Paragraph B22 that the "notes should provide more than an understanding of financial position or inflows and outflows of resources."

The reference to social and political decision-making is consistent with Concept Statement 1, for examples, paragraphs 32 and 76. However, Concept Statement 1 mentions several items that the financial statements are not necessarily the sole source or best source of non-financial information. For example:

- Concept Statement 1, paragraph 4 states, in part: "other information is better provided, or can only be provided, by financial reporting outside the financial statements. But financial reporting is not the only source of financial information about governmental entities. In many cases, users of financial reports *also need to consult other sources to completely satisfy their information needs (emphasis added).*"
- Concept Statement 1, paragraph 71 states, in part: "To make decisions, users need to *combine the information provided by financial reporting with other pertinent information, for example, on general economic conditions or political environment (emphasis added).*"

- Concept Statement 1, paragraph 77(c) states, in part: “This information, *when combined with information from other sources (emphasis added)*, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions.”

Consequently, to be consistent with Concept Statement 1, we strongly feel that the draft note disclosure concept statement should include similar statements that recognize that the notes are not the sole source of information useful to decision-makers, particularly for general economic conditions, social, and political decision-making, and that other sources of information should be consulted. We feel that such language will help to ensure that future note disclosure statements predominantly focus on financial information for the reporting period and would help to limit inclusion of non-financial information used for social or political decision-making.

Further, the inclusion of note disclosures to facilitate social and political decision-making will create difficulty for auditors, who are tasked with opining on whether the financial statements, of which the note disclosures are an integral part, “present fairly, in all material respects, the respective financial position” of the various opinion units. Asking the auditors to opine on the fair presentation of note disclosures designed to fulfil the needs of social and political decision-makers puts auditors in a position whereby they may have to opine on non-financial and potentially subjective information.

Paragraph 7 of the ED outlines the purpose of the notes to the financial statements which is to provide information essential to users in making “economic, social or political decisions or assessing accountability.” It is unclear how the government would accomplish this goal, as it would be nearly impossible to identify what social or political decision making information would be essential for the various users of government financial statements. This stated purpose creates an overly broad definition of “essentiality.”

We recommend that the concepts of social and political decision-making either be removed from the Concepts Statement or that safeguards be added to explicitly indicate, that while nothing can prevent users from using financial statement note disclosures presentations for social or political decision-making, the Board shall not promulgate standards that require reporting of information not directly integral to the reporting entity’s balances and resource flows for the purpose of facilitation of non-financial decision-making (i.e., any such social and political decision-making would be a by-product of the financial information inferred by the user and not a goal of the standard-setting process). While the financial statements include summaries of relevant accounting policies, the financial statements are not the appropriate vehicle for communicating non-accounting policies. The adopted budget and official policies of the governing boards are the documents used to communicate policies and plans to address social and political issues.

In addition, in our earlier response, we recommended that the Board clarify the need for Notes to the Financial Statements to reflect the same reporting units as the financial statements, concerning component units as reporting units and that this applies only to the government-wide level of financial statements. In Paragraph B39 of the ED, the Board introduces the possibility that reporting entity disclosures could be expanded beyond the current requirements (i.e., only required at the government-wide level) as long as the expected benefits are justified by the perceived costs. We disagree with this position and continue to assert that reporting component units in more detail than the government-wide level (i.e., major fund level) would unduly increase note disclosure complexity.

Further, the Board disregarded concerns about differentiating between reporting requirements for opinion units versus reporting units and indicated that “a specific term that has meaning in an audit environment is not relevant.” We could not disagree more. The Board’s stated goal of the Concept Statement is to provide useful information to decision-makers, and audits are necessary to ensure that financial statements are fairly presented and are thereby able to be relied upon by decision-makers. Rather than being dismissive of audit concerns, we recommend that the Board consider the potential impact of its Concepts Statement and resultant pronouncements on the auditors with the recognition that the financial statements and essential note disclosures have only limited value if not audited.

As for evaluation of cost/benefit of the disclosures, please clarify who will be doing this, the GASB or the government preparer. A formal review process for this would be desirable.

We would like to thank the GASB for its efforts in preparing the Exposure Draft and for the opportunity to respond. Please feel free to contact me at (561) 355-4277 or SRChessman@mypalmbeachclerk.com regarding the comments above.

Sincerely,


Shannon R. Chessman, CPA, CGFO
President, FGFOA