

June 30, 2008

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

By email: director@gasb.org

**Re: GASB Exposure Draft
Fund Balance Reporting and Governmental Fund Type Definitions
Project No. 3-18**

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, submits the following comments to you regarding the above captioned release. The NYSSCPA thanks GASB for the opportunity to comment.

The NYSSCPA's Government Accounting and Auditing Committee deliberated the exposure draft and drafted the attached comments. If you would like additional discussion with us, please contact Thomas J. Goodfellow, Chair of the Government Accounting and Auditing Committee at (518) 459-3188, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Sharon Sabba Fierstein
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON GASB EXPOSURE DRAFT
*FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE
DEFINITIONS***

Project No. 3-18

June 30, 2008

Principal Drafters

**D. Leslie Spurgin
Warren Ruppel**

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**New York State Society of
Certified Public Accountants**

**Exposure Draft – Fund Balance Reporting and
Governmental Fund Type Definitions
Project 3-18
(Issued February 29, 2008)**

General Comments

The New York State Society of Certified Public Accountants supports the GASB in its mission to establish and improve standards of state and local governmental accounting and financial reporting. We have reviewed the GASB Exposure Draft (ED) titled, *Fund Balance Reporting and Governmental Fund Type Definitions*. We have the following comments:

1. Definitions of Governmental Fund Types – After analyzing the various funds utilized in New York State, we believe the ED would require a substantial change in current practice and would impair comparability and understandability of financial statements. Since the Board indicated that fund balance definitions would be part of a later project addressing governmental fund reporting, we recommend the issue of fund balance definitions be eliminated from this ED.
2. Proposed Fund Balance Classifications – The fund balance classifications outlined in the ED do not provide information that previous pronouncements have stated is important and that users are accustomed to receiving. In New York State there is a body of law that regulates the establishment, funding, and use of reserves by local governments. Under the proposed fund balance classifications, information regarding these reserves would be obscured. Further, we believe information regarding the availability of resources is already provided in the Statement of Net Assets and need not be presented again in the Balance Sheet.

Specific Comments

1. Governmental Fund Type Definitions
 - a. Capital Projects Funds

While the definition of capital projects funds in the ED is consistent with the definition under NCGA Statement No. 1, *Governmental Accounting and Financial Reporting Principles*, it is not in accordance with current New York regulation and practice. The ED would require a substantial change in the way local governments account for capital asset acquisitions. We anticipate at

least two unfavorable outcomes that could arise should this more restrictive definition be imposed.

The first is comparability – both when comparing year-to-year results of a local government, and when comparing the financial statements of one local government with another. Many local governments use capital projects funds to account for large equipment purchases and smaller capital projects financed through both short-term and long-term debt. Under the ED, the balances of bond anticipation notes, as well as proceeds of long-term debt, would be recorded in the General and Special Revenue Funds. Financing the acquisition of assets by issuing long-term debt would result in larger fund balances at year-end than if the acquisition were financed from current funds and/or short-term debt. Also, because investments in large pieces of equipment can fluctuate substantially from year to year, comparability of year-to-year operating results and fund balances would be impaired.

Local government officials and the public would not easily understand the fluctuations of operating results and fund balances that would occur if the ED were to be implemented as written. Nor would they easily be able to distinguish between debt issued for capital acquisitions and debt issued to support operations.

For those governments that understand the implications of the requirements of the ED, we are concerned that they might make borrowing decisions based on the effect that those decisions would have on the fund balance rather than on prudent economic criteria. For instance, New York State currently requires certain school districts to limit their unappropriated, unreserved fund balance to no more than 4% of the subsequent year's appropriations. A school district might choose to finance an acquisition with short-term debt in order to comply with the State imposed fund balance limitation regardless of whether that decision is in the best economic interest of the district.

The NCGA definition of capital projects funds preceded the GASB Statement No. 34 (*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*) definition of "capital assets." Capital assets are reported in the government-wide as well as the fund financial statements for proprietary and certain fiduciary funds. The ED presents an opportunity for GASB to establish definitions to avoid governmental financial statements from having multiple definitions. The ED uses three distinct terms: "capital facility," "capital assets" and "capital projects." We think this can be simplified.

It would seem to be theoretically superior to have all general capital asset activities recorded in one fund type rather than have these similar transactions dispersed throughout the fund financial statements based upon a determination (subject to the government entity's discretion and interpretation) of what

constitutes a major capital facility. In current practice, preparers and users of financial statements already equate capital assets to those assets acquired or constructed with expenditures of capital projects funds. Of course, if the GASB believes the term “projects” is theoretically problematic, as it implies long-term construction or acquisition periods, then these funds could be renamed, “Capital Asset Funds.” Capital asset funds could be segregated for accounting and reporting purposes based on the type or purpose of the capital asset acquired.

b. Special Revenue and Debt Service Funds

Certain special revenue funds currently required by the New York State Comptroller may no longer qualify as special revenue funds under the ED. For instance, county road funds may record grant revenue but are mostly funded through interfund transfers. They have their own legally adopted budgets. Reporting this activity in the General Fund would require every county in New York State to change its reporting and budget practices for this one fund alone. Further, it would result in a loss of useful information for readers of financial statements who would no longer easily be able to track flows of funds pertaining to this critical governmental function.

Certain debt service funds are used to account for the activities of tobacco asset securitization corporations (TASCs) that, generally, are reported as blended component units. Because these funds have operating as well as debt service expenditures, they could not be reported in debt service funds under the ED provisions. Also, they could not be reported in special revenue funds as special revenue funds are precluded from including resources that are restricted or limited to debt service expenditures. Therefore, these funds would need to be reported either completely in a general fund, or in a general fund for the operating expenditures and in a debt service fund for the debt service expenditures within the TASCs’ stand-alone financial statements. This would result in all or a portion of the TASC activities being reported as a special revenue fund when blended into the financial statements of the primary government.

As noted in the Basis for Conclusions, paragraph 45, the Board was hesitant to make substantive changes in fund balance definitions until the issue could be examined within “a broader reexamination of governmental fund reporting.” As the definitions in the ED would substantially change current practice in the use of any number of funds, we encourage the Board to reconsider including definitions in the ED and to address this issue in a later project. Otherwise, a substantial change in practice could occur both with the implementation of this ED and again at the conclusion of a later project.

2. Classification of Fund Balances

The fund balance classifications outlined in the ED do not provide information that previous GASB pronouncements deemed important. In the Basis for Conclusions regarding balance sheets, GASB Statement No. 34, paragraph 417 states that the display of unreserved and reserved components of the fund financial statements provides different information from the government-wide classifications of net assets, which has been “consistently deemed important” by users. Regarding the objectives of fund financial statements, paragraph 237 states that information for governmental funds should include “other finance-related legal or contractual requirements...”

As noted under General Comments, there is a body of law in New York State that defines what reserves local governments may establish, as well as restrictions on the funding and use of those reserves. We agree with the opinions expressed in Statement No. 34. We also believe that eliminating reserves from the face of the statements would obscure information regarding the use and balances of these reserves that is important to local government officials, credit markets, and the public.

According to research noted in the ED, users of financial statements need information regarding the availability of resources. We believe that this information currently is provided in the net asset classifications in the government-wide statements. Describing the authority by which each reserve is established and any associated restrictions on funding and use in footnote disclosures could further enhance information regarding reservations of fund balance.