Dear Dave:

We are pleased to provide comments on the Governmental Accounting Standards Board’s (GASB’s) Invitation to Comment (ITC) regarding Financial Reporting Model – Governmental Funds. We appreciate GASB’s ongoing efforts to provide transparency and consistency in our financial reporting for all our financial statement stakeholders. With that in mind, we believe that while the government-wide statements provide the necessary long-term, economic resources basis needed for a long-term view of the government’s overall financial health, the governmental fund statements are most beneficial to stakeholders when they are presented with a shorter term, financial resources basis needed to assess the government’s fiscal accountability to its legally enacted budgets. In assessing the three methodologies presented in the ITC (near-term, short-term, and long-term), we conclude that the near-term financial resources focus provides stakeholders with the most transparency to assess the government’s performance in accordance with its legally enacted budget, and to demonstrate the adequacy of inflows of resources to meet the government’s services on an annual basis. This is essential information for legislators, constituents, and other governmental service beneficiaries that would not be communicated in the short-term or long-term financial resources focuses. We will present our reasoning further in the questions provided below.

Question 2.1: Do you believe that governmental fund financial statements should continue to present information that reflects a shorter time perspective than the information presented in the government-wide financial statements and that focuses on financial, rather than economic resources? Why?

As stated above, governmental fund financial statements should be presented on a shorter time perspective than the government-wide financial statements because each set of statements fulfills very different reporting needs. The economic resources focus of the government-wide financial statements provides a long-term view of the government’s overall financial health, while the governmental fund statements should be designed to meet the stakeholder’s financial reporting need of assessing the government’s ability to pay for its reported year’s services. For example, the shorter time perspective information in the governmental fund financial statements provides legislators and their constituents with important decision making information on the need to expand or decrease taxes or program expenditures from one year to the next. This determination can be made based on the assessment of the government’s taxes and other inflows meeting or exceeding the government’s spending within the shorter time period.

Question 2.2: Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information? Why?

Yes, having a balanced budget is a key concern for many stakeholders, and as pointed out in the ITC, many governments’ enacted budgets have “legal significance” in how the government is allowed to raise and spend its resources. Governmental fund financial statements should provide fiscal accountability that the government used its resources as legislatively required in the budget, and for the reader to assess if the fund’s inflows and outflows were balanced, if there was a deficit, or if there are net funds remaining for future period spending. Retaining the fund structure currently used in governmental fund financial statements is critical to facilitating budgetary comparison.
Question 2.3: Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability of the government? Why do you consider that information most relevant? GASB’s ITC defines fiscal accountability as “reflecting a shorter time perspective than that conveyed by the information in the governmental statements and focuses on financial, rather than economic, resources.” With this definition in mind, we believe the near-term approach, with a focus on cash and resources expected to be converted into cash, most visibly provides the accountability of how the government used the resources available to them during the reported period. The long-term approach alternatively provides very similar information to the government-wide statements for financial statement users, and only meets the needs of assessing long-term health instead of budgetary compliance and fiscal accountability. The long-term approach is so similar to the economic resources measurement and full accrual basis of accounting that this separate accounting presentation would be needlessly confusing without providing users with the benefit of a distinctly different presentation. The short-term approach, while better at assessing fiscal accountability than the long-term approach, does not provide the clarity of the near-term approach for the government’s actual spending of resources. Additionally the reader of a short-term financial statement may not realize this approach includes more than current resources and incorrectly use it for decision-making. The short-term approach may also add confusion to the reader by providing only one year’s worth of longer-term liabilities such as pension and OPEB, which readers may incorrectly interpret to be the entire liability. We believe it would be less confusing to the reader to not show those line items on the governmental fund statements, and to instead refer the reader to the government-wide statements for information regarding long-term liabilities. By referring the reader to the government-wide statements, the reporting will again be clarifying the two very different purposes of two sets of financial reporting statements.

Question 2.4: Transactions related to tax anticipation notes or revenue anticipation notes are presented differently under the three recognition approaches. In the near-term approach, borrowings on and repayments of these notes would be reported as inflows and outflows of resources on the statement of resource flows and in the reconciliation to the government-wide statement of net position. In the short-term and long-term approaches, outstanding balances of these notes would be reported as liabilities on the balance sheet, and borrowings on and repayments of these notes would be reported in the statement of cash flows. Which approach to the reporting of these notes provides the most valuable information? Why? For the Commonwealth of Pennsylvania, the practice for tax/revenue anticipation note is to pay them off in the same year as issuance. For us and other governments with similar policies and practices, the near-term approach would show stakeholders the magnitude of the tax/revenue anticipation notes by reporting both the inflow and outflow directly on the statement of financial resources. Both the short-term and long-term approaches would have no impact on the balance sheet or statement of financial resource flows for us or similar governments. A reader might incorrectly assume the transaction did not occur or be confused to see a transaction presented on a cash flow that appeared nowhere else on the face of the financial statements. Even for governments that do not pay off tax/revenue anticipation notes in the same year of issuance, the reader would see the outstanding balance in the difference between the inflow and the outflow or alternatively, simply view it on the government-wide statement of net position.

Question 2.5: Views vary on the definition of the financial resources – a concept integral to all three recognition approaches. What definition of financial resources provides the most valuable information? Why? Do you consider prepaid items to be financial resources? Why? Do you consider inventory to be financial resources? Why? For the purposes of reporting financial resources it is best to report in the most meaningful manner for comparison to the budget, which in this case would be near-term. Financial resources should be cash, cash equivalents, and other resources expected to be converted into cash, such
as short and long-term investments. A government’s budget cannot present prepaid items or inventory; it instead reports these items as outflows. For the sake of consistency, it is better for the governmental fund statements to do the same. Additionally, while prepaid items and inventory can be converted to cash, it is typically not the government’s intention to convert them to cash. Unlike enterprise funds, where inventory may be used to generate sales, most governmental fund inventory would be consumptive in nature. By reporting prepaid items and inventory as assets, it may falsely give the impression that a government did not “overspend” its resources when it actually had more outflows of cash and cash-equivalents than inflows.

Question 2.6: For the recognition approach that you believe provides the most valuable information, how would you change that recognition approach to provide information that is more valuable? How would those changes make the information more valuable? We would advocate the near-term being defined as 60 days rather than 90 days so that the CAFR statements are available to readers for timely and useful decision-making. Otherwise, preparers would have to either wait 90 days after the fiscal year end to begin preparing the CAFR statements and potentially risk missing deadlines, or they would have to rely more heavily on estimations instead of waiting for actual data.

Question 2.7: Paragraph 6 of Chapter 2 discusses a same page reconciliation to government-wide information and the use of specific terminology to more clearly communicate that the information in governmental fund financial statements is of a shorter time perspective than information in the government-wide financial statements and focuses on financial, rather than economic, resources. Are these changes effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements? How could those differences be communicated more effectively? It is our perspective that a same-page reconciliation would be counter-productive to effective communication, because it would create too much cluttered information for the reader to process. Instead, the reconciliation should be presented on the pages immediately following the governmental fund statements. We do, however, agree that it is beneficial to provide a note on the face of the statement notifying the reader of the shorter term view purpose of the governmental funds and directing them to the government-wide financial statements for a long-term view. The governmental fund financial statements should not only say that these statements are presented with a shorter term view, but succinctly explain the purpose of the shorter term view. Without an explanation of the purpose of the near-term view, the reader may be further confused as to why there are two different presentations. For example: “This statement presents a near-term view of governmental fund resource flows and excludes items of a long-term nature in order to demonstrate the government’s fiscal accountability of current resources. For a complete, long-term view of the government’s overall activities, see the government-wide statement of activities. A reconciliation of the short-term and long-term views is presented on the following page.”

Question 3.1: Which format for the governmental funds resource flows statement – existing format or current and long-term activity format – provides the most valuable information about governmental funds? Why do you consider the information to be more valuable? The existing format provides more valuable information because it is less likely to create confusion for the reader. For example, in the near-term statement of resource flows, it presents inflows related to long-term transactions, however, we’ve already explained on the face of the statement that the near-term is specifically designed to show a shorter time frame. By categorizing items as long-term on the statement, the reader will likely be more confused as to the presentation. Even in the short and long-term statement of resource flow examples, the reader may be confused that some transactions would be broken into current and long-term portions instead of presented as a whole, and that the current and long-term transaction would not always
correspond to the current and long-term balance classification. In addition to the readers’ confusion, it will require additional use of estimates for the statement preparers to determine the portions of long-term and current amounts for transactions that contain both. The limited benefit of seeing long-term revenues and expenses is offset by the lessening of accuracy of the statements and possible readers’ misunderstanding.

During our evaluation of the format for the governmental fund financial statements, we noticed the usage of the inflow and outflow terminology within the resource flows statement. We believe that the use of this terminology would be confusing to our readers and preparers, and believe that the statements will more effectively communicate our financial reporting with the traditional terminology of revenues and expenditures, as currently presented, or using expenses in place of expenditures.

**Question 3.2: Should a statement of cash flows be required for governmental funds? Why?** No. If a primary goal of the governmental fund reporting is to report the government’s usage of cash, it would be better to adopt the near-term approach and present that use of cash and similar resources on the face of the statements instead of creating yet another statement for the stakeholder’s to read. Even for the short and long-term approaches, cash flows would still not present the resource flows in a format easily comparable to the budget.

**Question 3.3: What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?** Presenting cash flows for all governmental funds will create additional taxpayer expense both in the staff time required in preparation and auditing for little to no benefit to the taxpayers themselves. There are also concerns that requiring new statements will impact the timeliness of issuing the CAFR. Additionally, many of our constituents and legislators who rely on the CAFR are not used to reading cash flow statements, so the information presented would not assist them with decision making. The near-term approach will provide stakeholders with a clear understanding of how the resources of the government were received and spent throughout the year, in a statement form they are already familiar with reading.

**Question 3.4: Are the four classifications for the statement of cash flows from Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting, the most appropriate for governmental funds? If not, what classifications would be most appropriate?** Although we strongly disagree with the concept of cash flows statements for governmental funds because the fund statements themselves should fulfill the purpose of informing readers of the government’s fiscal responsibility over the current year’s funding, we have no concerns with the four classifications suggested. However, we believe the specific captions presented within each classification should not be pre-defined by GASB, but remain at the discretion of the preparer’s professional judgment to determine captions that will provide the most meaning and usefulness to readers based on the governmental fund activity.

As you have read, we have serious concerns about the short and long-term recognition approaches, as well as the presentation of a statement of cash flows. Additionally, we have concluded that of the three recognition approaches, the near-term approach of the governmental funds would provide the most valuable information to our stakeholders. We also believe the inflow and outflow terminology used in the statement of resource flows would be confusing to our readers and preparers, and believe that the statements should continue to use the traditional terminology of revenues and expenditures or expenses.
Thank you for your consideration of our comments. Please contact Michael Burns with any questions at mburns@pa.gov or me at akihl@pa.gov.

Warm regards,

Anna Maria

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