March 2, 2017

David Bean, Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116
Via email: director@gasb.org

Re: Project No. 3-25I

Dear Mr. Bean:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the GASB Invitation to Comment on the Invitation to Comment Project No. 3-25I related to the Financial Reporting Model Improvements – Governmental Funds. These comments were prepared based on a review by the FGFOA members, its Technical Resources Committee, and the Board of Directors.

In response to the invitation to comment regarding the Financial Reporting Model Improvements – Governmental Funds, we believe that, other than minor modifications such as prepaid items and inventory not reported as financial resources and providing for clearer definitions of current resources that are measurable and available, the current resources method has met the needs of users of the governmental fund financial statements given how closely it aligns to the budgetary reporting and understandability and do not recommend an overall change from the current resources method to any of the other three methods proposed. We believe understandability is critical for users – in particular, elected officials and management – and that major revisions would add unnecessary complexity to the financial reporting. Conceptually we do not believe the financial information expressed as user-requested changes to the financial reporting model is necessary. Further, we feel that much of the requested information already exists within the current financial reporting package; specifically, the summary of significant accounting policies describes the differences in measurement focus and basis between government-wide and fund financial statements in great detail. If a change were required, however, to more closely align with the conceptual framework we would recommend the near term approach with presentation as noted in illustration 4A. Please see our responses to Chapter 2 and Chapter 3 questions below.

Chapter 2: Recognition Approaches for Governmental Fund Financial Statements

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?
Yes, we believe that governmental fund financial statements should continue to present information that reflects a shorter time perspective than what is presented in the government-wide financial statements, because shorter time perspective more closely aligns to how governmental entities budget expenditures.

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, we believe the governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information. The presentation of the budget is one of the main ways elected officials and management can ensure compliance with internal and external requirements.

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?

We believe the near-term approach would provide the most relevant information for assessing fiscal accountability as the approach more closely aligns to the budget than the other methods.

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. (See the discussion in Chapter 3.) Which approach to the reporting of these notes provides the most valuable information? Why?

The near-term approach would provide the most valuable information because reporting of all debt for governmental funds should only be in the government-wide financial statements. This consistency would increase comparability among governments.

2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. (See the discussion in paragraphs 38–40 of Chapter 2.) 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?

A consistent definition is the best, one without exceptions. Prepaid items and inventory are not financial resources because the cash has already been paid for the items. This is also consistent with the current model in the fact that prepaid items and inventory are excluded from unassigned fund balance and are included in non-spendable fund balance.

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 believe the near-term approach provides the most valuable information because it will provide a clear and concise definition of outflows and inflows. Also, in looking at the suggested formats for the Statement of Near-Term Financial Resource Flows we believe the existing format (4A) is better. One reason is many governments budget capital outlays within their department budget. Having to extract these expenditures from the departmental cost centers and show in total as in example 4B would create additional work to prepare the financial statements without providing valuable information to the readers of the statement.

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?

We would prefer a detailed reconciliation in the statements rather than in the notes. Also, many governments could not fit the reconciliation on the same page as the balance sheet which would require a second page as well. Hence, we do not see the need to require the reconciliation to be on the bottom of the balance sheet. We also prefer the reconciliation to be detailed because this enables the reader of the financials to not have to reference the notes for this information.

Chapter 3: Other Governmental Fund Financial Statement Issues

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?

We believe the existing format provides the most valuable information about governmental funds for a number of reasons, including the following:

- The discussion cites that a deficiency in the current reporting format is the lack of consistency in the resource flows that are reported as other financing sources and uses, specifically mentioning that issuance of long-term debt is reported as other financing sources, whereas payment of principle on that debt are reported as expenditures rather than other financing sources.

With regards to the current reporting model, the payments of principal on long-term debt are a component of budgeted resources of the operations of the government for that fiscal year. This is consistent with how a government is managed/operated, including in the development and monitoring of budgeted appropriations.

To treat debt proceeds as anything other than other financial resources creates disparity in (1) the underlying intent of the government in the financing activity and (2) the infrequent nature of these types of transactions.

The proposed changes to the financial reporting are ignoring a basic tenet of governmental finances: a government will budget for those expenditures that will need to be paid from current resources. Unlike a commercial business, the underlying revenue streams of a government, i.e. taxes, are set at a rate that will allow the government to pay for expenditures that will come due within the current fiscal year. The idea that a government would set tax rates at such a level to create excess revenues beyond a modest reserve for stabilization and/or contingencies is economically unpalatable.

In applying the principle of budgeting and managing to current financial resources, reporting of debt service payments as part of the operations of the governmental fund not only makes sense, it provides the reader consistency with the budgetary information and confidence that the government is being fiscally responsible for providing a reasonable level of taxation on its constituents.

- The discussion also refers to the disposal of capital assets being reported as other financing sources as a potential deficiency. Again, the proposed modification to the reporting model has lost sight of the purpose of a governmental fund. There is no profit motive in the disposal of capital assets. This is not an activity done in support of current government operations. To treat is as anything other than other financial resources ignores (1) the underlying intent of the government in the disposal activity and (2) the infrequent nature of these types of transactions.

- While proceeds from the sales of assets are not a material source of operating funding for most governments, they may be a source of funding for construction in progress. However, as a funding source, this would be distinctly different than taxes, contributions and user fees and should be continued to be reported as other financing sources.

- The concept of differentiating the presentation of transfers as either current-period activities or long-term activities would create confusion and inconsistent application of the reporting model. Further, this would create disparity with
how transfers are treated for statutory compliance, which would potentially lend itself to inadvertent overspending of budgeted appropriations.

3.2 Should a statement of cash flows be required for governmental funds? Why?

We do not believe a statement of cash flows should be required for governmental funds for the following reasons:

- There is little new information provided by the proposed governmental statement of cash flows that doesn’t already exist on the statement of revenues, expenditures and changes in fund balances for governmental funds.
- For the governmental funds of most governments, the difference between cash flows and the values presented on the statement of revenues, expenditures and changes in fund balances (modified accrual basis) are minimal.
- The long-term impacts of current financial decisions are already expressed in other documents, such as budget documents and forecast documents already published by each government. Also, those items would be addressed in the annual bond disclosure documents required by bond covenants for existing debt.
- Typically, the users of the governmental fund financial statements would utilize financial reporting which facilitates comparisons with the government budgetary information.

3.3 What difficulties, if any would arise in presenting a statement of cash flows for governmental funds?

Should the financial reporting model continue to present information on the modified accrual basis, the introduction of a statement of cash flows would be largely redundant.

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?

The four classifications in current use for proprietary funds are appropriate.

In summary, we do not believe a change to the financial reporting model of this magnitude is necessary. If, however, you proceed due the conceptual framework, we recommend the near-term approach be incorporated without the use of the statement of cash flows.

We would like to thank the GASB for its efforts in preparing the Invitation to Comment and for the opportunity to respond. Feel free to contact me at (352) 753-0421 or Sarah.Koser@DistrictGov.org.

Sincerely,

Sarah Koser, CPA, CGFO, CPFO
President