March 3, 2017

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
Project No. 3-251  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Office of the State Comptroller, we are pleased to respond to this Invitation to Comment (ITC) of the Governmental Accounting Standards Board on major issues related to Financial Reporting Model Improvements-Governmental Funds. Our comments to the questions posed by the ITC are attached.

We appreciate GASB’s effort to improve the existing financial reporting model and for embarking on this extensive undertaking, however, we want to highlight that some of the proposed changes related to specific recognition approaches might not be cost beneficial, particularly the requiring of statements of cash flows for governmental funds. In addition, we believe that as improvements are made, the financial statements should still be relatively understandable to an average user. The introduction of new terminologies might considerably limit the usefulness of the statements only to highly technical users.

Thank you for providing the opportunity to respond to this ITC. If you have any questions or require further details concerning my comments, please feel free to contact me at (518) 473-8983.

Sincerely,

Maria C. Guzman, CPA  
Assistant Director  
Bureau of Financial Reporting and Oil Spill Remediation
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, presenting both perspectives would continue to demonstrate the government’s fiscal accountability and operational accountability. In addition, it allows users to have an alternative view to the government-wide financial statements and provides a fuller picture to make an assessment of a government’s fiscal performance.

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, a government’s budget has the force of law, governs spending and shows the direction a government is planning to take for the year. Facilitating comparisons between the governmental fund financial statements and budgetary information demonstrates to constituents the government’s compliance with the budget and its fiscal accountability by how it managed available resources.

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?

The Short-Term approach provides the most relevant information to assess fiscal accountability of the government. It clearly defines the period of recognition and allows for comparability between government entities. The Short-Term approach also requires entities to record resources to be collected and liabilities due and payable, within one year, thereby making it a useful tool for the majority of the state and local governments that maintain their budgets on an annual basis.

The Near-Term approach is too close to the Cash Basis, which we are also statutorily required to report. The Short-Term approach, with its one year operating cycle focus, effectively complements the government-wide financial statements which present the most comprehensive and long-term picture of the government. These statements, along with the Cash Basis reports, provide the best combination of presentations to give users a complete picture for assessing both fiscal and operational accountability.
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 Short-Term approach provides the most valuable information. Outstanding balances of tax anticipation notes or revenue anticipation notes should be reported as liabilities on the balance sheet. This approach provides a more balanced presentation and would recognize both existing resources and obligations available and due within the same period.

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?

Financial resources are items than can be or are expected to be converted to cash and are available for spending in the near future. Both prepaid items and inventory are not considered financial resources, especially in government settings, because there is no expectation that they will produce cash nor be converted into cash in the future period.

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 do not believe that a governmental fund statements of cash flows is necessary for the Short-Term approach. It is a duplication of the information presented in our Cash Basis report which we are statutorily required to issue.

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?
Although we appreciate the note pointing out the difference in the short-term and long-term view of the statements, the introduction of new terminology makes the statements confusing. We would like to see the continued use of terminology that is universally known and understood by a majority of users, such as revenues and expenditures. If new terminology or report titles are used, they should be clearly defined.

With regard to the same-page reconciliation to government-wide information, we believe that this format may be achievable for smaller size government entities. For an entity with a size similar to the State of New York, and with the type of transactions that occur during a typical reporting period, the reconciliation page will not fit on the same page as the balance sheet or resource flows statements. Currently, our reconciliation alone takes up an entire page.

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?

The existing format of the governmental funds resource flows statement provides the most valuable information in the most understandable format. The current and long-term activity format creates unnecessary complexity by using the terms ‘current’ and ‘long-term’ when our aim is to reduce or eliminate the possibility of inappropriately using information in governmental fund financial statements when trying to assess long-term issues. In addition, this format seems to add complexity without being able to fully achieve the goal of a consistent separation of resource flows between current and long-term activities.

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

No, a statement of cash flows should not be required for governmental funds. Any benefit to be achieved by adding this statement would be exceeded by the level of effort required to produce such a statement, not to mention the additional cost of auditing it. Moreover, there would be redundancy in the information it would report relative to Cash Basis report, which New York State is also required to produce.

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

See response to 3.2 above.

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 classifications used for Proprietary Fund Accounting are appropriate for governmental funds.