March 10, 2017

Director of Research and Technical Activities
Project No. 3-251
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To Whom It May Concern:

We appreciate the opportunity to respond to the invitation to comment (ITC) of the Governmental Accounting Standards Board (the Board) on Financial Reporting Model Improvements – Governmental Funds. Overall, we have concerns with each recognition approach included in the Board’s ITC and have outlined our major concerns with each approach for further consideration below. In examining each approach, we considered the concept of fiscal accountability as defined by the Board within the ITC, and used that as a gauge in determining which option would be most informative to the users of the financial statements. We also took into consideration the time, effort and cost currently associated with compiling and auditing comprehensive annual financial reports (CAFRs), and how each proposed recognition method would further impact this timeframe.

Considering the items identified above, we believe the Near Term recognition method most clearly aligns with fiscal accountability. Additionally, of the three approaches, we determined the Short Term to be the most unfavorable recognition approach, due to the inconsistencies in financial reporting the use of significant estimates will introduce. We also believe the requirement of a cash flows statement under the Short and Long Term approaches, will result in an additional cost of time and resources for governmental entities and could further delay the issuance of CAFRs after fiscal year end which would thereby impact timely usability by decision makers. Lastly, we determined the Statement of Resource Flows and the new terminology it introduces will not provide additional clarity but create additional confusion for users in comparing governmental fund activity to that presented within government wide Statement of Activities.

Recognition Approaches

Near Term

In applying the Board’s definition of fiscal accountability, we believe the Near Term recognition approach will provide users of the financial statements a shorter time perspective than the information conveyed in the government-wide statements and will be easily
comparable to budgetary information. Additionally, we identified this approach as the easiest for users of the financial statements to understand due to its transparent linkage to the budget. We also believe this approach would take less time to implement and prepare, considering it will closely align with the presentation basis of the actual activity currently included in the Budget to Actual statements within Required Supplementary Information (RSI). Further, if this is the Board’s preferred approach, we believe it may prove useful to pull budget to actual statement activity out of RSI and include it as a part of the governmental fund statements. This would provide users the benefit of viewing financial activity reported under the Near Term approach while also providing a readily available comparison to the related budget, thereby making it easier for decision makers to assess a government’s fiscal accountability. Recognizing that there would still be accrual variances between the Near Term approach and the related budget, we believe notes will still be an integral component for a user to understand fund balance differences when comparing a government’s basis of budgeting to activity reported in a governmental fund.

We agree with the Board that a major challenge of the Near Term approach would be the inconsistencies associated with not recognizing certain liabilities at year-end because they are not considered due as discussed in Chapter 2, paragraph 19 a. This could be confusing to users of the financial statements and not considered a transparent presentation of obligations known to be due within the near term. Another item we deliberated is the timeliness and availability of this information to make decisions, considering the financial statements for most government entities are not available until several months after fiscal year end. Taking this into account, the governmental fund statements presented under the Near Term approach, unless reviewed from a historical standpoint, still may not be a useful resource for decision makers.

Short Term

In applying the Board’s definition of fiscal accountability, we do not believe the Short Term approach would be useful to the users of the financial statements. As noted with the Near Term approach, the timing of when financial statements are available after fiscal year end, hinders the usefulness of this approach for decision makers, even with a shorter time focus than that of the government-wide statements. Further, we believe this approach will incorporate the significant use of estimates and assumptions as stated in Chapter 2, paragraph 28.b, which would create further inconsistencies in how governmental entities report similar activity. We also believe the determination of pension liability under this approach as referenced in paragraph 28.c of Chapter 2, is moving away from the changes brought forth with GASB 68. Reverting back to a funding approach for establishing pension liabilities when pensions are administered through trusts lacks a conceptual foundation and creates inconsistencies between the fund and government-wide statements which may be difficult for report users to understand. Lastly, of all the approaches, we believe the Short Term presentation would be the most costly to implement, due to the additional effort, time and costs associated with preparing and auditing the additional estimated balances and cash flows statement.
Long Term

While we believe the Long Term recognition approach could prove beneficial to financial statement users as this approach transparently shows the recognition of financial resources when they take place, regardless of when cash is received or paid, we do not see how this approach aligns with the Board’s definition of fiscal accountability, which reflects a shorter time perspective, even with the use of a balance sheet presented in a classified format. Further, the exclusion of capital assets and its related debt would further limit the usability of the governmental fund statements to make well-informed decisions about a government’s operations, especially for funds where the building of capital assets is one of its primary purposes. For example, a transportation special revenue fund is a major fund for many state governments, and the primary purpose for the accumulation and use of resources in those funds are to build highways and roads. Under the Long Term recognition approach, if capital assets and its related debt is excluded, we do not believe a user of transportation special revenue fund statements would have a clear picture of the true nature and operations of said funds.

We believe another downside of the Long Term recognition approach would be the timing of when information would be readily available to compile the governmental fund statements. As the statements will incorporate essentially full accrual accounting principles, we believe preparers would struggle to prepare both the governmental fund and government-wide statements essentially during the same time frame, while correspondingly having an audit performed to meet certain law driven mandates of when the audited financial statements have to be complete and available for use. In the Commonwealth of Virginia, our Code establishes the state’s CAFR to be fully complete and audited by December 15th. Currently, the government-wide statements, which incorporate full accrual accounting principles, take the longest to prepare due to the time frame it takes after year end to get reliable information, even when estimation is involved. In light of this, if the Board decides to proceed with the Long Term approach, we believe it should be modified to also include capital assets and its related debt, and additional consideration should be performed related to the need for government-wide statements, since essentially they will be reporting the same activity reflected in the governmental fund statements. We believe redundancy in presentation could be considered a waste of a government’s resources. Lastly, as identified with the Short Term approach and in conjunction with the time we anticipate will be needed to prepare governmental fund statements under the Long Term method, the requirement of a cash flows statement could adversely impact governmental entities, from a time and cost perspective.

Same-Page Reconciliation

While we believe the concept of a same page reconciliation as presented in Chapter 2, paragraph 6, between the governmental fund and government-wide financial statements for all three approaches is an ideal presentation in theory, we do not believe it is practical given the varying sizes of governmental entities and the number of reconciling items required depending on the Board’s preferred recognition approach. Additionally, we noted the reconciliation examples provided in Appendix D directed users to an additional note regarding the
reconciliation; therefore, we believe it should not be classified as a Same-Page Reconciliation, since a note will need to be referenced to have a complete understanding of reconciling items. Lastly, we believe while the reconciling differences between the governmental fund and government-wide financial statements will be decreased under the Short Term and Long Term approaches, there will be an increase in the reconciling differences between the governmental fund statements and the budget to actual statements included within RSI.

Non-Major Governmental Funds

An additional item of consideration for the Board, not specifically referenced in the ITC, is the need for non-major governmental funds being presented within the governmental fund statements. In applying the concept of fiscal accountability, the main emphasis of whether a government is being a good steward of economic resources can be generally obtained through the use of the major governmental fund statements. Further, in many cases non-major funds are aggregated in a manner that they do not truly provide useful information about the nature of the underlying activity. We believe the majority of users of the financial statements could gain an in depth understanding of the fiscal health of a governmental entity by using the major governmental funds statements, in conjunction with the all-inclusive government-wide statements, if the Long Term approach is not incorporated. Further, if the Board moves forward with any of the three recognition approaches discussed within the ITC, implementation of the changes would be easier to absorb from a timing and resource perspective if it only impacted major governmental fund statement presentation. Considering the volume of information currently included within CAFRs, and the time and costs related to the compilation and audit of this activity, we believe it is important for the Board to continually consider this as a key component when proposing potential changes to the existing governmental accounting framework.

We appreciate the efforts of the Governmental Accounting Standards Board and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact LaToya Jordan or me at (804) 225-3350.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts