March 13, 2017

Via electronic mail
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Invitation to Comment-Financial Reporting Model Improvements-Governmental Funds Project 3-251

Founded in 1897, the Pennsylvania Institute of Certified Public Accountants (PICPA) is a nonprofit, voluntary professional organization representing more than 22,000 members. One of the expressed goals of the PICPA is to speak on behalf of CPAs in Pennsylvania, as well as the public interest. Thank you for the opportunity to review and comment on the Financial Reporting Model Improvements-Governmental Funds Project 3-251.

Overall, we do not believe that the proposed Financial Reporting Model Improvements-Governmental Funds will improve the usefulness of the financial statements. The changes discussed will only add more confusion. We will explain in more detail in our answers to your questions.

Questions

2.1 We 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.

- The government wide financial statements show a long-term picture. The fund financial statements show a short-term picture that is very similar to the annual budget.
- Governments manage for both the long term and the short term through their annual budget.
- Well managed governments build room for savings in the annual budget. They have 5-10 year operating plans and 5-10-year capital plans that are part of the annual budget discussion. They make themselves accountable in public discussions as they review these plans and set the budget for the coming year.
- Governments manage the incoming resources and the outgoing resources of the current year. As needed, they plan for the future by providing for excess resources to build savings to fund long-term planning.
- Management and the public then use the budget to monitor performance and accomplishment of goals during the year.
- While some governments may choose to ignore their long-term needs, this poor management decision is not due to a deficit in financial reporting on annual audited financial statements.
2.2 Yes. The fund financial statements should continue to present information that facilitates comparison with the budget.
   - Management and the public then use the budget to monitor performance and accomplishment of goals during the year.
   - The budget is a legal mandate. In some municipalities, they cannot legally spend beyond the budget.
   - The budget comparison is one of the key pages in the statement. It allows users to compare the audit to the working budget to verify that management's performance compared to budget.

2.3 Near-term is the recognition approach that provides the most relevant information for fiscal accountability.
   - It is the most relevant because as discussed in the answers to 2.1 and 2.2, the budget is the legal authority for fiscal accountability and from a practical standpoint it is the most commonly used tool for fiscal accountability.
   - Near-term is the recognition approach that most approximates budget.

2.4 For the fund financial statements, using the near-term approach would provide the most valuable information.
   - The balance of the TAN would appear on the government-wide financials.
   - If the balance of the TAN is on the fund financials, it could be misleading to users. Currently no debt is on the fund financial statements. If some debt is on the fund financial statements, but not all debt; a user could easily misinterpret the fund statements and believe that the number represents all debt.
   - A government could have at year-end $3 million outstanding in TAN debt but $2 million in capital debt. Again, it would be confusing to have part of the debt on one statement and not all of the debt.

2.5 The definition of financial resources that provides the most valuable information are resources that can be converted to cash or consumable in lieu of financial resources.
   - We consider prepaid items to be financial resources because the existence of the prepaid item avoids the use of financial resources in a future period.
   - We consider inventory to be financial resources because inventories are consumable in lieu of financial resources.

2.6 For the near-term approach the only thing we might consider changing is to define prepaid items and inventory as items that will be used within 90 days. This could address the concern that different components on the statements have different measurement dates. We also believe that prepaid items should remain in the current assets classification and not be classified as deferred outflows.

2.7 From a purely practical standpoint, many governments still use a paper copy of the financial statements. Without reducing the font size below a reasonable level, it is going to be difficult to fit the reconciliation on the same page.
   - We do not agree with reducing the amount of information on the reconciliation. The detailed reconciliation helps the user see the components of their long-term commitments and resources.
• We believe that the current schedule does clearly communicate that the government-wide statements show a longer-term perspective.

3.1 The existing funds format provides the most valuable information for all the reasons noted in the Chapter 2 questions.

3.2 Because we are advocating for the near-term approach we do not believe a cash flow statement would be necessary or relevant.

3.3 N/A

3.4 N/A

As the GASB noted so thoughtfully in this ITC, the current model is not perfect. Appendix C does a nice job of laying out the pros and cons of the various approaches. We did not tally the columns for the YES scores, but a quick perusal seems to indicate that the existing financial statements columns have more “yes” designations.

We believe that the financial statement users will not be benefitted by a new format. Instead a new format will only confuse users and add complexity. It is more important for us as practitioners to continue to educate the users on reading, understanding, and using the financial statements. Focusing on both the long-term and short-term financial goals would be part of this education.

Thank you.

Respectfully submitted,

Cynthia Bergvall, CPA, Chair
GASB Subcommittee of the PICPA Local Government Accounting and Auditing Committee