March 16, 2017

Mr. David R. Bean
Director of Research and Technical Activities, Project No. 3-25I
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board’s invitation to comment (ITC) entitled Financial Reporting Model Improvements - Governmental Funds. Overall, we agree with the Board that a conceptually consistent basis for governmental funds within GAAP should be established and we applaud the Board’s efforts to do so. Toward that goal, we support the recognition approach that provides the fewest "exceptions to the rule" and yet provides the most useful information to a wide breath of stakeholders.

Our responses to the questions posed in the ITC are noted below.

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?

No. We believe that the provisions of the long-term approach in combination with a classified balance sheet provide users the most useful information and a sufficiently short term perspective. The existing reporting model’s balance sheet already provides for reporting several "non-current" assets and liabilities, in addition to the "non-current" elements of deferred outflows of resources and deferred inflows of resources. The long-term approach would adopt less significant changes than the near or short term approaches and require fewer reconciling items to the government-wide presentation, which we consider another component of a conceptually consistent framework.

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, however, as a component of required supplementary information. Our audit attention is better applied to other aspects of the basic financial statements and notes. We consider budget activity to be a compliance issue, and our opinion would consider material noncompliance related to the basic financial statements and notes. We believe that state fiscal agencies are likely better positioned to develop and analyze budget information for their legislators and interested stakeholders.

We suggest the Board consider amending the provisions of required supplementary information if additional comparisons to budgetary information is sought by that user group.
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?

Our preference is for the long term approach. By adopting the provisions of paragraphs 30 through 34, and using a classified balance sheet, users will have a better understanding of the governmental funds’ condition than that suggested in the near or short term approaches. By excluding certain transactions when applying the other approaches, users will have less information presented in the financial statements, which we consider as providing less accountability and less conceptual consistency.

Also, one of the stated advantages to the near term approach is that it most closely follows the budgeting process. Yet, the lack of timeliness in government financial reporting across the country mitigates the CAFR’s use in those activities. Also, management’s ability to influence fund balance still exists with the timing issues and excluded transactions contained within the near and short term approaches.

We believe that users need a more accurate sense of the cost to provide services, even down to the governmental fund level, which can only be completely achieved from the long term approach. We recognize that it is not feasible to allocate capital assets to that level.

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?

We consider the long-term approach to these transactions as appropriate. The payment of these notes is a reduction of a liability and a reduction of cash and would not be reported as an outflow of resources. Instead, the statement of cash flows would reflect the payment activity.

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?

We do have a broader view of financial resources such that it would include both prepaid items and inventory. We expect prepaid items to be "used" and inventory to be converted to cash in the following reporting period. Therefore, both should be considered a financial resource to the government.
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?

As previously stated, the primary carve out within the long term approach (capital assets) cannot reasonable be addressed at the government fund level. If greater budgetary comparisons are needed from the long term approach, we suggest expansion of the required supplementary information section to address those needs. Also, management could provide non-GAAP schedules and statements, under separate cover. If desired, auditors could provide attest services over those items, should a government choose to provide budget information to the level of detail or measurement that is not appropriate for a CAFR’s primary purpose.

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?

Yes, we expect a reconciliation to the government-wide information as beneficial to users so they fully comprehend that the governmental fund financial statements do not include all of the activity reflected at the entity wide statements.

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 separation between current and long term activity gives that presentation method a slight edge over the existing format. We agree that the current and long term methodology provides a more consistent treatment for long term debt and capital assets that is preferred over the existing treatment.

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

Yes. Given our support for the long-term approach and the need for a cash flow statement to reflect certain activity that would only impact balance sheet accounts and will not be reflected on resource flows statement.

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

Although we cannot provide specific examples, we are concerned that there will be many governments whose accounting software will not easily accommodate a cash flows statement for governmental funds. Additional outreach may be necessary to determine the ease of implementing a cash flows statement by preparers.
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?

Yes, we consider the four classifications provided by Statement 9 as appropriate and in the interests of consistency and understandability, we support their use for governmental funds.

Sincerely,

Doug Ringler
Auditor General

cc: C. Murray, CPA, CIA

Via e-mail