March 16, 2017

Director of Research and Technical Activities
Project No. 3-25I
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Director,

Please consider the following response to the Government Accounting Standards Board’s (GASB) request for written comments to Invitation to Comment, Project No. 3-25I: Financial Reporting Model Improvements – Governmental Funds from the members of the Oregon Society of Certified Public Accountants (OSCPA) Governmental Accounting and Auditing Strategic Committee.

Attached are our responses to the questions you requested to be answered.

In addition to the attached, please consider our recommendation of an alternative reporting model for governmental funds. We believe it is time for governments to present all funds using the Economic Resources Measurement Focus, and the accrual basis of accounting, retiring the Financial Resources Measurement Focus. We believe this will enhance users understanding of governmental financial reports, and consistency with other governmental entities.

We appreciate the opportunity to provide our input on this invitation to comment.

Sincerely,

Jonathan D. Grover, CPA
Governmental Accounting & Auditing Strategic Committee Chair
Oregon Society of Certified Public Accountants
QUESTIONs FOR READERS OF THIS INVITATION TO COMMENT

Individuals and organizations are invited to comment on all matters in this Invitation to Comment. Respondents are encouraged to respond to all questions that are relevant or of interest to them. It is not necessary to provide responses to all questions. The questions are repeated at the end of each applicable chapter for your convenience.

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 budgetary basis schedules should remain in the CAFR. Significant policies and decisions are made with this focus. State of Oregon statutes require inclusion of budgetary schedules and we believe this provides information on fiscal accountability for all funds, regardless of fund type.

For the basic financial statements and combining schedules, we believe everything should be presented using economic resource measurement focus and accrual accounting. This is necessary to provide operational accountability and transparency for all funds. This allows for the basic statements to deliver a consistent message. The current model presents confusion where measurement focus and basis of accounting change from one page to the next with complex reconciliations.

While everything should be presented using the economic resource measurement focus and accrual accounting, we recognize many municipalities maintain multiple bases of accounting for the use of management. If a shorter time perspective was eliminated (i.e. budgetary basis), we believe many jurisdictions would maintain internal financial statements on a non-GAAP basis which elected officials and policy makers would actually use to make their decisions. Eliminating a budgetary basis would further make GASB GAAP financial statements less useful and more confusing to these financial statement users.

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?

Budgetary schedules are necessary to show fiscal accountability. Also, in many states such as Oregon, it is a legal requirement to present this information. Budgetary performance is a benchmark for many concerned parties, from staff to auditors, to elected officials. These are among the most valuable statements in the CAFR for decisions makers. Many audit committee members will focus on areas of over expenditure, and expect the budget to be a critical point of control.

That said, we believe the fund financial statements themselves should not be on the same measurement focus and basis of accounting as the budgetary schedules. Governmental funds should be presented using the same measurement focus and basis of accounting as the proprietary and fiduciary funds.
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?

As mentioned previously, we believe an alternative, the economic resource measurement approach, would be a better solution; however, among the options presented, the near-term approach is the best approach. It is already a basis many governments are familiar with as it is the budgetary basis. It is efficient as it eliminates the need to maintain 3 bases of accounting. This proposal will provide a more consistent application of accounting concepts. Many governments’ budgetary basis is very close to this proposal and conversion would be simple.

Most governmental agencies in the country are small with limited accounting resources and this approach would be easily understood and implemented by financial statement preparers. Most individuals in governmental finance are budget based, as are the policy makers, budget committees, and general public. Their focus is on what resources they have available to operate with, which is well communicated by the near-term approach. Full accrual statements can be used in conversations to make long term decisions.

We also like that it keeps the focus on what resources are available and what liabilities are payable from resources available at year end.

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?

If the focus is going to be on fiscal accountability in the governmental fund statements, presenting the flow of these resources in and out of the funds, as is proposed in the near-term approach, is a better way to disclose the fiscal impact of these borrowings on the flow of resources. We understand how some users could find the statement of net position overstated. However, decision makers would see that the repayment of these notes budgeted in the following year. Additionally, these notes payable would be reflected in the entitywide statements, and in the Notes to Financial Statements.

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, in the near-term approach, are considered to be cash and assets that will convert to cash in the near term. The focus has to be on what resources are available to be budgeted against in the next cycle. Prepaid items and inventories are not available to be converted into cash in the next cycle. Therefore, they should not be included in with financial resources.
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 suggested in the near-term option, eliminating prepaid items, inventory and long term receivables simplify fund balance to clearly show what resources are available to the government in the next cycle. That is what elected officials, department heads and budget staff are most concerned with. We suspect it is also what bond analysts want to see when they are determining what resources the government has available to service debt. The entitywide statements are available to users who would like to see the long term position.

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?

The current approach to the reconciliation is effective. A single page reconciliation is already a challenge. In order for a complex governmental entity to prepare a 1 page presentation, the font would have to be very tiny.

As stated earlier, a better approach is to restrict the financial resources measurement focus to the budgetary schedules, and have all of the basic financial statements presented using the economic resources measurement focus, so that they present a consistent message.

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?

Breaking out the long-term activity doesn’t seem to provide any real advantage over the existing format, and accomplishing it would create additional work that can’t be justified. Significant amounts of additional work would have to be done at year end to dissect the existing general ledger (or add additional accounts such as long and short term transfers) to come up with the required numbers.

The vast majority of governments are small and they are already struggling to meet the expanding demands of new GASB pronouncements. Creating additional work that provides nothing of substance in return should be avoided. Also, auditors in our group expressed concerns about the additional audit work this would require.

If changes to the requirements must be made, please consider the economic resource measurement focus, as we are recommending. We believe this would give a useful return in exchange for additional work.
3.2. Should a statement of cash flows be required for governmental funds? Why?

As stated previously, we would like to see all basic statements, regardless of fund type, to be presented using the economic resources measurement focus. Thus, all statements, including the government-wide statements, include cash flow statements.

If the financial resource measurement focus must remain in the basic financial statements for governmental funds, we prefer the near-term approach which is essentially a cash flow statement; so an additional cash flow statement is unnecessary.

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

The near-term approach is pretty much a cash flow statement, so it isn’t necessary to present a separate statement. Additionally, for governmental organizations that do not currently present business-type activities, they would be required to learn this statement from scratch.

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?

We don’t think the concept of operating activities as shown on page 52 makes sense for governmental funds. E.g., “Operating” for governmental funds includes taxes and intergovernmental revenues. The current cash flow model is designed for operations supported by fees and doesn’t really fit the needs of governmental funds. Taxes and intergovernmental revenues are essential to the operations of many government services. Without them, they do not operate. Perhaps the category name could be different, but operating services must be matched up with taxes, and most likely intergovernmental revenues.