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,

We are responding 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. Please find our response attached.

At this time, we respectfully request that GASB rejects all three options for the reporting model put forward in this invitation to comment. We believe that the time has come to abandon the Current Resources Measurement Focus and modified accrual accounting. It is time for governments to present all funds, in a consistent manner, using the Economic Resources Measurement Focus and the accrual basis of accounting, in order to enhance users understanding of our financial reports.

The development of the new reporting model is critical to preparers, practitioners, instructors, and users. We appreciate the opportunity to provide valuable input on this very important invitation to comment.

Sincerely,

Christa Bosserman-Wolfe, CPA
Clackamas County Assistant Finance Director
RESPONSE TO THE INVITATION TO COMMENT

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?

We believe that budgetary basis schedules should still be reported in the CAFR. Generally these are presented using current financial resource measurement focus and modified accrual. Since Oregon requires inclusion of budgetary schedules, this provides information on fiscal accountability for all of our 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 basis accounting. This is necessary to provide operational accountability and transparency for all funds, not just proprietary and fiduciary funds.

The basic statements should deliver a consistent message rather than the confusion of the current model where measurement focus and basis of accounting changes from one page to the next with complex reconciliations.

We have solved the linkage to budgetary basis for proprietary and fiduciary funds by including a reconciliation from the budgetary schedules to the fund financial statements. Requiring that reconciliation between budgetary schedules and fund financial statements should provide sufficient information about the accounting differences.

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, it is a legal requirement. That said, we see no reason for the fund financial statements to 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\(^1\) of the government? Why do you consider that information most relevant?

If GASB insists on retaining the current measurement focus for governmental funds, the near-term approach is far superior to the others. Among other things it is the budgetary basis for many governments and eliminates the need to maintain 3 bases of accounting rather than 2. The current model has done a good job of communicating fiscal accountability and the proposed changes will provide a more consistent application of accounting concepts. Many governments’ budgetary basis is very close to this proposal and conversion would be simple.

The vast majority of the 90,000 or so governments in the country are small with limited accounting resources and this approach would be easily understood and implemented. Even in large entities, there are very few accountants. The vast majority of people involved in finances are budget analysts who generally have limited accounting knowledge. Their focus is on what resources they have available to operate with, which is well communicated by the near-term approach.

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.

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\(^{1}\) Fiscal accountability reflects a shorter time perspective than that conveyed by the information in the government-wide financial statements and focuses on financial, rather than economic, resources.
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 think of financial resources as 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. Prepaids and inventories are not available to make payroll and pay bills in the next cycle and therefore, 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, getting rid of prepaids, inventory and long term receivables strips down 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.

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?

We like the current approach to the reconciliation. Given the length of our statements, we would end up using a 2nd page for the reconciliation. In order for a large or 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. Either additional general ledger accounts would have to be created (e.g., long and short term transfers) or a lot of additional work would have to be done at year end to dissect the existing general ledger to come up with the required numbers.

The vast majority of governments are small and they are already struggling to meet the ever expanding demands of GASB. Large entities are all already facing budget cuts and are also having problems doing what is necessary to comply. Creating additional work that provides nothing of substance in return should be avoided.

If GASB must change the requirements, switching to the economic resource measurement focus, as we are recommending, would give some actual return in exchange for additional work.

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

Our preference is for all of the basic statements to be presented using the economic resources measurement focus. In that scenario, all of the statements, including the government-wide statements, should 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.
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.