March 27, 2017

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, Connecticut 06856

Re: Project 3-251, Financial Reporting Model Improvements—Governmental Funds

Dear Mr. Bean,

We are a group of students from the University of Central Florida taking part in a Financial Accounting for Governmental and Nonprofit Organizations course. As current and future accounting professionals, we believe it is crucial for us to become involved in the process of standards setting, since it has a direct impact in our profession. After reviewing the GASB Invitation to Comment related to financial reporting improvements for governmental funds, we have come up with answers to the questions presented in the exposure document.

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?

It is imperative that governmental fund financial statements should continue to present information on a shorter time perspective than the information on the government-wide financial statements. The necessity of a shorter time perspective for governmental fund financial statements stems from a variety of reasons. First, the short time perspective is needed because of its cohesiveness with the budget process within governmental funds. A longer time perspective would distort the funds accomplishments per the current year’s budget because of a reporting period that considers more than the current period. The inability to compare the current year budget to the current year performance leads into a second reason for the pro stance of a short-term perspective—fiscal accountability. Fiscal accountability gives the users of the governmental fund financial statements the capability to verify if the government is abiding to their budget, and this can be best represented when following similar period recognitions.

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. Once again, the concept of fiscal accountability applies to this question. It is extremely important to have a legally adopted budget and to report the performance of the government in
relation to its adopted budget. The differences between the budget and actual results reveal the government’s compliance to the budget and provide essential information to users of the financial statements. In addition, budgetary information also allows users of the financial statements to better understand the judgements of the government and its potential actions.

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?

The near-term approach is the best revenue recognition approach for assessing the fiscal accountability of the government. When considering the answer to this question it is important to define fiscal accountability, which was provided in the invitation to comment. The ITC described fiscal accountability as a shorter time perspective than the governmental-wide financial statements and as a focus on financial resources. With this in mind, it is a clear decision that the near-term approach is best fitted for this requirement because of its short time perspective and its tendency to align with the budget information. The important aspect to be stressed is that the near-term approach is parallel with the adopted budget and provides the best fiscal accountability of any option. Thus, the information provided by the near-term approach is most relevant because its information tells users how the government achieved and spent its resources in accordance with the adopted budget. Although the short-term approach does comply with a shorter time perspective, it may or may not provide a base for which there is an ability to assess the flow of resources in a budgetary context. The long-term approach suffers from the same issue mentioned above, plus its time focus is much too long to provide fiscal accountability.

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 governmental-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?

The approach to the reporting of these notes that would provide the most valuable information would be the short-term approach. Reporting the principals of these notes that are due within the subsequent operating cycle as liabilities, allows stakeholders to gain a better perspective of the short-term health and budgetary actions of the government. Stakeholders will have a more accurate depiction of the fund balance by being able to see if it has met existing obligations or has incurred new obligations to balance the budget.
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 that are defined as, “all resources that are not capital resources” provides the most valuable information. This definition provides the most valuable information because capital resources are assets that are more long-term in nature or are used in carrying out a service; they do not produce cash quickly. Since the governmental funds are focused on a short-term perspective, anything that would not be considered a capital resource would also be considered short term in nature and expected to be converted into cash. Prepaid items would be considered financial resources because in many cases this amount is refundable, which means that it could be converted into cash in the short term if it needed to be. Inventory would be considered a financial resource depending on how it is expected to be consumed. If the inventory is held for sale it would be considered a financial resource because it would be expected to produce cash in the near future. If the inventory was expected to be consumed by the government it would be considered a capital resource because there is no expectation that this resource would generate cash or could be converted to cash quickly if it needed to be.

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?

The near-term approach provides the most valuable information, but could be improved by including prepaid expenses. This would make the information provided by the near-term recognition approach more valuable because prepaid expenses are usually able to be refunded, which means they can be converted to cash in the near term. Inventory that is held for sale could also be recognized because it is expected to be converted cash in the near term. This would provide a more accurate depiction of the financial resources that are available for spending in the next period.

2.7. Paragraph 6 of this chapter 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?

A same page reconciliation may work for smaller entities but larger and complex governmental units may struggle to produce said reconciliation due to size limitations. Making the font smaller would make the information presented illegible and counterproductive to achieving
clear and concise communication. Therefore, it is our opinion that the current method is the best option. Clear labels explaining the difference between the shorter-term approach and the government-wide financial statements, however, can be beneficial for users to better comprehend financial statements.

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 existing format provides the most valuable information about governmental funds without the costs exceeding benefits. Currently users can deduce the same information that is being proposed without additional confusion. Providing a ‘long-term’ section on governmental fund statements will confuse readers of the purpose of the statements as we are continuing to push the short-term aspect of these statements. As noted in the ‘Intent to Comment’ document, there will still be confusion as to how some capital asset and debt transactions should be classified. Therefore, it seems that increasing the complexity of the statements will not only be costly and difficult for smaller entities but also not as valuable for the effort it will take to educate the preparers and users alike.

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

If a near-term approach is used as stated in question 2.3 above, the information on a statement of cash flows would not be required. By the time the statements would be available, the information would prove obsolete considering the long-term cash flows in place in the government-wide statements. Additionally, with the near-term approach in place, information obtained from the cash flow statement would be redundant as there is limited new information that would not already be expressed elsewhere.

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

Requiring a statement of cash flows for governmental funds creates an increase in the costs of preparing and auditing these additional statements. This creates undue pressure on smaller governmental units that lack the resources necessary to incur additional training for accounting staff as well as compensation for external auditors. It is also important to note that additional cash flow statements can affect the timeliness of the CAFR’s issuance, making reported information largely redundant by the time the CAFR is published, as we have already established in our answer for the previous question.
3.4. Are the four classifications for the statement of cash flows from Statement 9 the most appropriate for governmental funds? If not, what classifications would be more appropriate?

The four classifications for the sample statement of cash flows seem appropriate, although may not be applicable across governmental units because of their varying degrees of size and complexity.

Thank you for the opportunity to provide feedback to the Board on this matter.

Best regards,

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