March 14, 2017

Mr. David 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

RE: GASB Invitation to Comment – Financial Reporting Model Improvements – Governmental Funds

Dear Mr. Bean:

Thank you for the opportunity to respond to GASB’s Invitation to Comment (ITC) – Financial Reporting Model Improvements – Governmental Funds. While we are not in favor of changing the GASB 34 financial reporting model, we have provided the following responses to the GASB’s questions. These responses represent the opinions of both our department and that of the Office of Auditor of State of Iowa.

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. The governmental fund financial statements, as they are presented currently under the GASB 34 financial reporting model, are utilized by our legislature, department of management and finance personnel of our state departments. We strongly believe the governmental fund financial statements should reflect a shorter time perspective than the government-wide financial statements so they remain more closely aligned with the State’s budget which is prepared on a modified cash basis.

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. The governmental fund financial statements, as they are presented currently under the GASB 34 financial reporting model, are utilized by our legislature, department of management and finance personnel of our state departments. The more the governmental funds presentation differs from the budget the less useful the information will be to these users.
2.3 Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability of the government? (Footnote 13: 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.) Why do you consider that information most relevant?

As stated above, we are not in favor of changes to the current reporting model. We believe the near-term approach would allow for the governmental fund financial statements to more closely resemble the current GASB 34 model. We believe the near-term approach provides the most relevant information for fiscal accountability given that it is most closely aligned to the modified cash basis budget of the State.

Under the near-term approach, paragraph 10 explains “the length of time following the end of the reporting period that would be included in the near-term perspective generally would be in the range of 60 to 90 days.” Additionally, as stated in paragraph 11, “the near-term approach is consistent with the objective of developing a conceptually sound foundation and would be based on a concept of symmetry for assets and liabilities. Assets would include resources that are receivable at period-end and that normally are due to convert to cash within the near term...Liabilities would include those that are payable at period-end and that normally are due within the near term.” Paragraph 15 goes on to explain “inflows of resources for a reporting period would be recognized for newly acquired financial resources that (a) do not result in corresponding liabilities and (b) are available for spending for that reporting period. Financial resources would be considered available for spending in the reporting period if they are (1) received in cash during the period or (2) receivable at period-end and normally are due to convert to cash in the near term.” Footnote 4 explains that “normally as used in this approach refers to circumstances for governments in general, not the potentially unique circumstances of a single government.”

- **Scenario 1:** A government has a payable/expenditure for goods/services provided by June 30 that will be reimbursed by a federal grant. The federal revenue is not expected to be received until more than 60-90 days after June 30. Is it correct that it would be appropriate under the near-term approach to recognize a receivable and a revenue (as opposed to a deferred inflow of resources) for this federal revenue?

- **Scenario 2:** A county loaned bond proceeds to a hospital, under the loan agreement the hospital makes payments to the county equal to the payments the county is required to make on the general obligation hospital urban renewal bonds. Under the GASB 34 model (modified accrual), the debt service fund of the county reports a loan receivable for the total due from the hospital and the liability for the bonds is not reported, resulting in a large fund balance in the debt service fund. We believe the near-term approach’s concept of symmetry will correct this because it limits reporting in the fund statements to generally a 60 to 90 day concept; therefore, both the loan receivable and bond payable would not be reported in the debt service fund statement (symmetry).
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 of resources and outflows of resources on the statement of resource flows (income statement) and in the reconciliation of 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 believe the focus should be on the income statement (near-term approach). By law when the State of Iowa issues TRANS, they must be paid off by the end of the fiscal year the money was borrowed; therefore, there is no impact to the balance sheet. These should be reported as other financing sources and other financing uses in the near-term approach because including these in the inflows and outflows (revenues/expenditures) would cause the inflows and outflows to not be comparable from one year to the next.

2.5 Views vary on the definition of financial resources – a concept integral to all three recognition approaches. 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 believe financial resources should be defined as – cash, resources that can be or are expected to be converted to cash, and resources that are consumable in lieu of financial resources (specifically, prepaid items and inventory). Yes, we consider both prepaid items and inventory to be considered financial resources because they are assets the government has purchased and will consume in the near future instead of making an outlay of cash for those items. Additionally, both items could be easily converted to cash (i.e. a refund in the case of a prepaid item or a sale of inventory).

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?

We believe the near-term approach provides the most valuable information.

- As explained above, we would include prepaid items and inventory as assets.

- Illustration 3 and 4A: The section titles on the balance sheet and income statement are too wordy. For example, “near-term liabilities and near-term financial resources fund balances.” We suggest removing “near-term” and “near-term financial resources” from the labels. Users are made aware of the statement being measured on the near-term approach based on the title of the statement. Additionally, the notes to the financial statements should define what is meant by assets, liabilities and fund balances in the context of the governmental funds measured on the near-term approach.
• Illustration 3 and 4A: The sentences included between the statement name and the statement details should be removed and included in the footnotes. (For example, Illustration 3 includes: “This financial statement presents a short-term view of the governmental fund activities and excludes items of a long-term nature. For a complete portrayal of the financial position of the governmental activities, see the government wide-statement of net position.”) Users have always been directed to the financial statements by a note at the bottom of each statement and should be accustomed to reading the Summary of Significant Accounting Policies (SSAP) note for this type of information. For example: “The notes are an integral part of the financial statements.”

• We think it will be very confusing to users if governmental fund statements use the terms inflows/outflows instead of the terms revenues/expenditures. This is a significant change in terminology that we believe will be confusing to those who utilize our financial statements.

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?

We do not see a need to change the current reconciliation process and location. We currently include our reconciliations from the governmental funds statements to the government-wide statements on the very next page. Our reconciliations are quite detailed and lengthy and we cannot foresee them fitting on the “same-page”, nor do we believe there is a need to expand upon the descriptions. At some point, information gets to be too voluminous to be understandable and user-friendly. The SSAP note explains the differences in the governmental funds and the government-wide statements.

We would be open to using specific terminology to help with consistency, but it is important to remember that while states, counties, cities, schools, etc. have many similarities they also have many differences. The reconciliations need to allow for the appropriate level of detail of these areas that are different (professional judgment by preparers).
Chapter 3 – Other Governmental Fund Financial Statement Issues

3.1 Which format for the governmental funds resource flows statement (income 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?

We prefer the existing format because:

- It is comparable to the budget format.
- It is comparable to the current GASB 34 model which users are familiar with.
- It demonstrates that governmental funds are significantly different than proprietary funds. The approaches are too similar to the proprietary funds and we believe would cause more confusion by users.

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

We strongly disagree with including a cash flows statement for governmental funds.

Adding cash flows statements would add significant time and effort by both preparers and auditors without adding comparable value.

If we were to attempt to prepare a cash flows statement for our governmental funds, we believe it would need to be done at a very high/summary level, unlike the proprietary funds which are done for each individual fund. This is because we have hundreds of funds that make up the overall governmental funds of the State (i.e. approximately 365 general funds make up our General Fund as presented in the CAFR). The cash flows statements of proprietary funds are prepared individually for each fund (i.e. 2 major and 15 non-major enterprise funds).

The vast majority of revenues reported in governmental funds are taxes and federal revenues, not fees for services. In our FY2016 Statement of Revenues, Expenditures and Changes in Fund Balances, total governmental funds revenues were $17.7 billion and taxes and receipts from other entities totaled $15.3 billion (or 87%). The majority of expenditures reported in governmental funds are state aid (i.e. roads, health, education, etc.). In our FY2016 Statistical Section – Schedule 15, we reported total current expenditures in the general fund of $14.9 billion and state aid of $11.2 billion (or 75%). Governmental funds are significantly different from proprietary funds which charge fees for services. We don’t understand how a cash flows statement for governmental funds will provide useful information to legislators, management, preparers, users, etc.

Additionally, cash flow statements by fund are not tools that would be used by the State for monitoring cash flows for routine operating purposes.
3.3 What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?

As mentioned above, we have hundreds of individual funds that make up the total governmental funds. There would be a significant amount of time and effort involved to prepare a cash flows statement that we do not believe would add value to the CAFR.

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 most appropriate?

As noted above, we do not agree with presenting cash flows statements for governmental funds.

If you have any questions or need additional information regarding this response, please do not hesitate to contact Kim Knight at (515) 281-6523.

Sincerely,

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