March 27, 2017

Director of Research and Technical Activities
Via email: director@gasb.org

Thank you for the opportunity to respond to GASB’s Invitation to Comment on the Financial Reporting Model Improvements – Governmental Funds (Project No. 3-251).

On behalf of the California State Association of County Auditors that represents all 58 California Counties, we are responding specifically to the questions posed by the GASB. However, we would like to make a few general comments:

One of the objectives of financial reporting is consistency and comparability of financial information from year to year and across different organizations. Since 2012, the GASB has issued over 21 statements. There have been so many changes in the last few years that the consistency and comparability of financial statements year over year and across organizations is difficult to achieve. Historical information presented in a Comprehensive Annual Financial Report (CAFR) will not include 10 years of consistent historical financial information because of the numerous statements issued over the past five years and the effects these changes have on information presented in the statistical section of the CAFR.

Also, if a goal of financial reporting is to provide timely, meaningful information to decision-makers and other users of the financial statements, the significant number of standards and the implementation thereof does not lend itself to timely reporting. Financial reporting is becoming overly complex, requiring outsourcing to other professionals (actuaries, financial institutions, subject matter experts, etc.) to determine amounts and disclosures such that timely reporting is no longer being achieved. Our government institutions, especially our smaller governments, simply cannot keep up.

Chapter 2: Recognition Approaches for Governmental Fund Financial Statements

Question 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?
In answering this question, if one of the goals of financial statements is to assess fiscal accountability, then the answer is yes.

As described by the GASB in this ITC, 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”. In trying to meet the objectives of financial reporting, the GASB needs to define what fiscal accountability means and for which time period the financial statements attempt to assess fiscal accountability. If fiscal accountability reports on a government’s accountability within one operating cycle of the balance sheet date, then the shorter time perspective is consistent with fiscal accountability. Longer time perspectives can’t effectively communicate spendable resources for future budgets.

**Question 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, we believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information.

If one of the goals of financial statements is to assess fiscal accountability, the budgetary comparison assists the users of financial statements to determine if the government is adhering to the legally adopted budget and is effectively executing the government’s budgetary plan. Although the Budget to Actual Statement is prepared ‘after the fact’, this comparison serves as a final report card to the readers of how the organization complied with its statutory budget. Additionally, the presentation of the budget provides information about the organization’s fiscal sustainability. For example, is the government budgeting a deficit that may require spending cuts and reductions in public services? We believe this information is important to the users of the financial statements. There are, however, limits to putting too much emphasis on this comparison, such as an organization inflating its budget year after year to ensure compliance or the basis for developing the budget may not be consistent with financial statement presentation. The general practice, however, of comparing the budget to actual results is recognized in most government organizations as essential for being fiscally accountable to the public.

**Question 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 a general response, the Board needs to define what they believe fiscal accountability means. If it is a shorter time perspective, the period of time would have to be defined to ensure consistency across organizations.

Going with the assumption that fiscal accountability is generally one operating cycle after the balance sheet date, then, we believe the time perspective of the Short-Term Financial Resources approach (short-term approach) provides the most relevant information for assessing fiscal accountability of a government.
For example, by reporting liabilities that come due within the next operating cycle, this presentation provides a more comprehensive picture for the reader to assess the ‘short term’ resources and requirements of an organization. Also, the short-term perspective takes away some opportunity for governments to manipulate the receipt of revenues and the payment of liabilities and avoid presenting these on the balance sheet. The inclusion of some liabilities may still cause challenges such as the presentation of compensated absences liability at fiscal year-end which is inconsistent with the budgetary comparison schedules.

**Question 2.4**

*Which approach to the reporting of these notes provides the most valuable information? Why?*

If the Tax Anticipation Notes (TAN) or Revenue Anticipation Notes (RAN) do not cross over a fiscal year, then the near-term approach reflects the most valuable information since you would report both the resource inflow and outflow on the Resource Flow Statement. If the obligation crosses fiscal years, accounting for the notes in the near-term approach would result in no liability or Resource Outflow reported in the year of issuance. This reporting would impact fund balance year over year and would be misleading.

If the TANS/RANS cross over into the next fiscal year, then both the Short Term and Long Term approaches provide more valuable information. However, for both approaches, the Cash Flow Statement would be essential.

**Question 2.5**

*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 agree with the view that financial resources are items that can be or are expected to be converted to cash or are consumable in lieu of financial resources. This definition would include inventories and prepaid items, if material. We would suggest using the matching principle to match the time period for recognition to be consistent with the same time period used for resource inflows and outflows. That is, those items that would be consumed or converted to cash within the same recognition period (60-90 days for near-term approach, one operating cycle for short term approach, etc.).

**Question 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 Short Term Approach provides the most valuable information to assess fiscal accountability. Requiring governments to disclose liabilities created by choices made in funding certain obligations would allow readers to better compare the financial health of multiple governments. There are challenges to selecting this approach. For Other Post Employment Benefits (OPEB) and Net Pension Liability (NPL) it would be difficult to determine the ‘current portion’ and assign it at the governmental fund level using GASB guidance under GASB 68 and 75. It would
appear we are reverting to old standards on some issues but moving toward full accrual (government-wide presentation) on other areas.

**Question 2.7**
*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 agree the same-page reconciliation and the use of specific terminology does alert the reader that there is a different time frame for the data presented on the statements. However, we ask the GASB to consider what level of expertise we are expecting the readers of these financial statements to have? The complexity of these statements has been increasing over the years and the terminology has changed as well. If the average citizen (let alone our governing board members) does not understand the statements, then this same-page reconciliation is not going to add significant value. We believe those in the financial industry and advisors, accountants, auditors, etc., will understand the reconciliation but the general constituency will not.

Also, by compressing the data onto one page and/or making a short list doesn’t always convey the information and the reason for the time perspective differences. However, by referencing the additional explanations in the footnotes, the GASB may have shifted the clarifying information to the footnotes at the end of the financial statements. We prefer to have the one page reconciliation right after the statement so the reader wouldn’t necessarily need to go to the footnotes for additional clarification.

**Chapter 3: Other Governmental Fund Financial Statement Issues**

**Question 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?*

We prefer the existing format of the Resource Flows Statement.

To present the transactions into current and long-term activity format may be confusing. For example, Transfers In and Transfers Out appear as both a current and long-term inflow/outflow of resources. Does this add value to the readers? We don’t believe this makes it easier for the reader to understand. It adds an unnecessary level of complexity to the statement. Furthermore, each transaction will have to be dissected to determine the purpose of the transaction...whether the amount transferred resulted in a short-term resource or longer-term resource.

**Questions 3.2-3.4**
3.2 Should a statement of cash flows be required for governmental funds? Why?
3.3 What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?
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?
As preparers of financial statements, we prefer not to prepare a statement of cash flows (SCF) for each fund: one for each major fund and one for all other governmental funds. If it’s not required, some will likely not prepare it. For the short-term and long term approaches, it makes sense to have the SCF, but we question the categories of activities. The current SCF is for a business perspective. If an SCF is required for governmental funds, then we suggest the need to collapse the categories into the following:

- Operating (intergovernmental, taxpayers, charges for services,)
  - Citizens/constituents
  - Intergovernmental
  - Capital outlay
- Investing activities
- Financing regardless whether for capital or non-capital purposes, debt-related financing, TANS/RANS

In summary, we present you our responses to the GASB’s specific questions. However, if we were to choose between the three approaches, we believe the Near-Term approach provides the best link between providing financial information to determine whether the government is effectively executing its budget and the full accrual information provided in the government-wide statements. The Near-Term approach would effectively standardize revenue recognition periods and provide an improved version of the current Modified Accrual basis for governmental fund reporting.

We ask the GASB to focus on what is the purpose of the governmental funds. If governmental funds are trying to present information that is timely and meaningful then a short period of time (within a 60-90 day period) does this. However, the GASB will need to define ‘measurable and available’ with a specific timeframe to ensure consistency between organizations rather than repurpose the entire financial statements.

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