March 27, 2017

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

Dear Mr. Bean,

Thank you for the opportunity to comment on Financial Reporting Model Improvements - Governmental Funds. We are students from the University of Central Florida’s Financial Accounting for Governmental and Nonprofit Organizations course. We are invested in seeing what options lie before us and how reporting on governmental funds can be improved. Furthermore, partaking in this opportunity is an area of focus our professor believed would be critical in our development because it would provide us exposure to the process of standards setting.

Below are responses to the specific questions asked in the GASB Invitation to Comment related to chapters 2 and 3. The intent was to be as specific as possible to clearly convey the logical reasoning behind the responses below. Overall, the presentation of the governmental fund financial statements should follow the long-term approach and provide a statement of cash flows on the basis that most users prefer to see information that is like the for-profit sector. Furthermore, the existing format for governmental resource flow fund statement is consistent with the prior resource flows statement.

Chapter 2:

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?

Governmental fund financial statements should not present information that reflects a shorter time. The shorter perspective may be academically sound because it helps presents information to maximize governmental fund comparability, but it fails to consider that most users of these statements fall into 2 main categories: Those who do not understand financial information or those who are used to seeing financial information with the accrual method. Furthermore, most users won’t have an example to learn from and may not understand the differences between fund terms. If reporting was performed using the long-term approach, the statement of cash flows could be used to keep savvier users up to date. To summarize, the shorter time method is appropriate only if the user is well educated and can understand it. Otherwise, the best approach is the long-term one because it is simpler and will be more useful to most 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?
Governmental fund financial statements should continue to present information that facilitates comparisons. Instead, it is recommended that governmental organizations use the statement of cash flows as their basis of comparison. The statement of cash flows is the best statement to use as a basis of comparison because the users that would consider reconciling the budget with the financials would want to use a statement that they are accustomed to.

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 Long-Term (Total Financial Resources) approach provides the most relevant information for assessing fiscal accountability of the government because it considers capital assets and liabilities. These accounts can be used to delay current financial resources and under the current model, these would be harder to identify and might incorrectly appear as fiscally accountable. Therefore, recognizing these accounts enables better assessments of 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 of resources 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?

The Long-Term approach provides the most value when reporting tax anticipation notes or revenue anticipation notes because it would be separately recognized as a liability as opposed to another inflow. Separately stating these types of notes as liabilities helps bring attention to the importance of these notes and is more useful for the user of the statement.

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?

The definition of financial resources that provides the most valuable information is: items that are expected to be converted to cash. This definition is the best because these resources most closely align to the assets in the quick ratio and these assets are the most liquid to meet current obligations if issues were to occur. Prepaid items and inventory are not in the quick ratio and therefore shouldn’t be considered financial resources. U.S. GAAP follows the principle of conservatism, therefore these accounts do not always have the expectation of future cash, are part of situations not in users’ control and don’t follow conservatism.
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 Long-Term approach should aim to identify areas which are not aligned with the government’s budget and document instances of non-compliance. There should be a link provided to service effort, costs, and accomplishment, as well as reporting of capital assets and capital-related debt.

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 is more effective in communicating that the information in governmental fund financial statements is different from the government-wide information by clearly showing all differences in one simple view. These differences can be communicated more effectively if the Long-Term approach is used because there will be less differences due to accounting methodology and this will help pinpoint variances useful for the users.

Chapter 3:

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 will cause less confusion for users because it is consistent with the prior resource flows statement. It is more effective to present the financial results to the readers with the existing terms such as “revenues” and “expenditures” because it is generally understanding and accepted. Furthermore, if the existing statement is separated to either the current or long-term activity format, it will create additional complexity, require significant retraining, and decrease the value of the information provided. Lastly, users who are not financial literate will be less likely to understand the new terms and or understand the intent of why this was done. This may lead this user demographic to distrust the current financial condition as they cannot understand the new methodology.

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

A statement of cash flows should be required for governmental funds because it will help financial statement users who are unfamiliar with governmental accounting to quickly spot liquidity, solvency, and cash flow issues. Also, depending on how resource management
statements are presented, there might not be any clear information on where the money to an organization is going and coming from, which is a transparency issue.

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

Unlike in the private sector, the statement of cash flows cannot be supported with the income statement and balance sheet, as these formats are not used for governmental funds. Besides, a reconciliation between the statement of cash flows and the resource flows statement is difficult since there is no direct correlation between the classification for cash flows and the subtotals reported in a resource flows statement. The statement of cash flows could also be unnecessary because the near-term resource recognition would make the statement of operations look like the cash flow 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?

The four different classifications for the cash flow statement are unnecessary. At most there should be two classifications, which should be operating and capital financing activities, and investing and non-capital financing activities.

We are all curious to see what others say about these questions to the accounting standards and hope our answers help those who make the ultimate decision. Hopefully, the long-term approach and cash flow statement is used for the presentations of fund financial statements. Additionally, we hope the existing format for governmental funds resource statement is maintained. We appreciate the GASB bringing up this vital topic and hope to give our opinions on future decisions.

Sincerely,

Prem Warde
Ting Wang
Connor Gilchrist