March 18, 2017

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 3-251
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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. We are pleased to respond to this Invitation to Comment (ITC) of the Governmental Accounting Standards Board on Major issues related to Financial Reporting Model Improvements - Governmental Funds.

We appreciate GASB’s effort to improve the existing financial reporting model. While we can see different possible benefits to each of the three recognition approaches, we feel none of the proposed changes are able to fully incorporate the broad needs of different user groups. We agree that the government fund financial statements should continue to present information that reflects a shorter time perspective and that focuses on financial, rather than economic, resources. Although the proposed near-term approach claims to align more with budgetary comparisons, we just don’t see enough of a correlation. Therefore, we believe the short-term approach may provide the most benefits. Our comments to the questions posed by the ITC are attached.

Again, thank you for providing the opportunity to respond to this ITC.

Sincerely,

University of Central Florida - Graduate Students
Hetal Patel
Kevin Wilches
Melissa Christian
Vedant Parikh
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?
Yes. Presenting a shorter time frame allows users to better assess what resources are available for immediate use, and facilitates a comparison of the statements to the budget. A shorter term would also provide governments better information for making decisions about short term financing needs and resource allocations.

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. Budgetary comparison is the primary method by which citizens hold government’s management financially accountable. Comparing budgets to actual data creates accountability of elected officials to use the money as planned.

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?
The near-term approach allegedly provides a greater degree of fiscal accountability than the other methods as it is the closest to cash basis accounting and may be able to better depict resources that are available to meet obligations. However, we are concerned with some of the inconsistencies already highlighted. For example, not recognizing a liability until the date it is due, while recognizing accrued interest on that liability does not portray an accurate picture. In this respect, the short-term approach may offer better clarity, and limit management’s ability to manipulate end of period balances. While the time frame of this approach may lessen the user’s ease of budget comparisons, it improves consistency in recognition of obligations and resources available within the subsequent reporting period.

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?
The near-term approach has value in that it places an emphasis on information needed for short-term decisions and is able to convey the inflow of resources from the TAN’s that would be available for use. However, not showing the corresponding liability on the balance sheet seems misleading, especially if the notes were to come due just beyond the “near-term period”. For those notes not due in the near-term, the balance of the liability should be noted. Use of the short-term approach along with a statement of cash flows would more clearly portray the inflow of resources from financing activities with the corresponding, outstanding liability.

Question 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 feel that financial resources refer to those items that are cash and cash equivalents, that can be converted to cash in a relatively short period of time, or that are consumable in lieu of cash. As such, prepaid items and inventory should be considered financial resources. Prepaid assets are normally for services to be incurred within a year, fitting the definition of a financial resource. If the prepaid did not exist then cash would need to be used to pay for the current expense. Inventory held for sale can also be a financial resource due to its relative short turnover time before the item is sold generating revenue.

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 recognition approach provides more value to the user, however on the financial resource balance sheet, we suggest an adjustment to the presentation of hedging derivative. The amount for the hedge is presented on the deferred out flow on the asset portion and normal liability on the short-term liability portion of the balance sheet (depending on the situation). The user might benefit from seeing the reporting as deferred outflow/inflow on the top and bottom of the balance sheet to show both items are related. In addition, based on our view of the definition of financial resources in the above question, we feel items such as prepaid and inventory should be included on the balance sheet.

Question 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 believe these changes will allow users to see major differences in accounting of government funds to government-wide financial statements. Users will be able to quickly group together reconciling items such as capital assets and those that are long-term in nature to see how they tie back to the bigger picture that is presented in the government-wide financial statements, but there may not be enough detail to make the reconciliation clear. It may be unrealistic to provide the reconciliation within that one page. The reconciliation can be improved by adding more detail to major revenue and expenses other than aggregating the values and labeling them “Revenues/Expenses that do not provide/require short-term financial resources”.

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?
The current and long-term activity format provides the most useful information to the user since the cash events created by capital assets and related debt can be better represented in its own section. This information is more valuable to the user, since with the previous method, financing activities would have a separate section, yet principal payments would be reported as expenditures.

Question 3.2. Should a statement of cash flows be required for governmental funds? Why?
A statement of cash flows should be a requirement for both the short-term and long-term recognition methods. This would provide more clarity and ability to differentiate between revenue (expense) and actual cash inflows and outflows. Having both statements provides a better understanding for those users more familiar with non-government type of financial statements.

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

The main issue with requiring an additional statement is the cost associated with developing the statement on a regular basis. Another would be the additional time and money required to audit the financial statements. Last, addition of another statement could further delay the issuance of governmental financial statements.

**Question 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?**

Not all of the categories from Statement No.9 would be appropriate for governmental funds. Because the balance sheet does not contain capital assets, having a category for “cash flows from capital and related financing activities” may not be appropriate for governments. Furthermore, the current and long-term activity format may warrant a new set of categories. For example, “cash flows from current activities” and “cash flows from long-term activities” would enable the user to follow both statements conceptual framework.