March 29, 2017

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

Dear Mr. Bean:

RSM US LLP is pleased to provide feedback on the Invitation to Comment (ITC), *Financial Reporting Model Improvements—Governmental Funds*. We understand the objective of this project is to make improvements to key components of the financial reporting model, the purpose of which is to: (a) enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government’s accountability and (b) address certain application issues identified through pre-agenda research conducted by the GASB. We appreciate the opportunity to be involved with such an important initiative.

Responses to Questions for Readers of this Invitation to Comment

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?

Yes, provided determinations are made that: (a) fund financial statements are relevant and useful to the external users of the financial statements and (b) a shorter time perspective aligns with how management and governing bodies manage the finances of the government and demonstrate their accountability to the key users of the financial statements. The governmental fund financial statements may include the information most relevant to the citizens because the information aligns more closely with the budget process and the setting of fees and rates. While the economic resource focus at the government-wide level provides more condensed and comparable financial statements among governmental entities, we believe the focus of the governmental fund financial statements on financial resources meets the needs of key internal financial statement users, as well as other governmental entities (such as State and Federal agencies) and the citizens.

**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?

In general, we are supportive of the governmental fund financial statements continuing to present information that facilitates comparisons with a government's budgetary information because many governmental entities use this information to demonstrate compliance with laws and regulations and accountability to the public. However, we believe improvements or alternatives to the current requirements should be considered to address: (a) the lag in providing the comparative information given that audited financial statements are typically issued several months after the end of the year,
(b) situations in which the governmental entity budgets using a basis of accounting other than modified accrual, and (c) the lack of disclosures related to key considerations the governmental entity uses when developing the budgetary information. While the modified-accrual basis of accounting and financial resource measurement focus more closely align with budgeted amounts for most governmental entities, there are still a large number of governmental entities that budget on a cash basis or modified-cash basis of accounting. The required reconciliation of the differences between the budget and the fund financial statements often leads to confusion among even the internal users of the financial statements, who generally find this information valuable. In addition, key considerations in developing the budgets of the governmental entity may be important to certain external users and are often not disclosed. These key considerations include how the entity plans to fund the long-term liabilities and equity deficits presented in the government-wide financial statements and how the budget correlates to the government-wide financial statements.

**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?

Since the decision has been made to keep the governmental fund financial statements, the near-term approach provides financial results that may be more comparable to budgetary information, which usually relates to shorter periods of time as well. Because most governmental entities account for transactions during the year based on how they have budgeted, we believe the near-term approach would more closely align with the financial statements that are maintained and monitored internally throughout the year, which would reduce the burden of reporting governmental fund financial statements and meet the needs of most users.

In addition, a governmental entity’s ability to define the availability period under the current standard creates some issues with comparability. If the near-term approach is determined to be the approach that addresses the objectives of the standard, defining a specific time period that constitutes “near-term” may help minimize some of the inconsistencies frequently found in fund-level financial reporting.

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

Tax anticipation notes and revenue application notes are recognized at the entity-wide reporting level under the economic resource measurement focus and full-accrual basis of accounting. We believe the treatment of these items using the near-term approach as outlined in the ITC, which would report borrowings on and repayments of these notes as inflows and outflows of resources on the statement of resource flows and in the reconciliation to the government-wide statement of net position, would be appropriate. Regardless of the approach selected, we believe specific guidance and clarification around recognition of these notes and the related disclosures would be beneficial to ensure consistency in reporting.

**Question 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 near-term approach does not include prepaid items, inventories and other similar resources as financial resources given there is no expectation they can be converted to, or will produce, cash in a future period. As noted in our response to an earlier question, we believe the near-term approach more closely aligns with what is important to the expected primary users of the governmental fund financial statements. As such, we believe not including prepaid items, inventories and other similar resources is appropriate.

**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?

We believe the approach as defined in the proposal is sound. However, providing more specific guidance on required explanations of the differences between the governmental fund financial statements and the government-wide statements would make the financial statements more valuable by improving readability of the statements and creating more consistency between governmental entities.

**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?

Requiring the governmental fund financial statements adds complexity to the financial statements and an administrative burden to the governmental entities preparing them. If the governmental fund financial statements continue to be required, we do not believe that adding a same page reconciliation supplemented by more detailed footnote disclosure will be any more effective than how and where the reconciliations are currently presented. However, we believe incorporating specific terminology to more clearly communicate the nature of the reconciling items would likely provide for more effective communication to users.

**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?

For the reasons stated in our responses to earlier questions, we believe the near-term approach using the existing format will meet the needs of the expected users of the governmental fund financial statements.

**Question 3.2:** Should a statement of cash flows be required for the governmental funds? Why?

We believe a statement of cash flows would not be necessary under the near-term approach.

**Question 3.3:** What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?
As noted in our response to the previous question, a statement of cash flows would not be necessary under the near-term approach. Also as noted, our position primarily focuses on the needs of the expected primary users of the governmental fund financial statements and not the relative difficulty of their preparation.

**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?

As noted in the response to an earlier question, we do not support the presentation of a statement of cash flows for governmental funds.

We appreciate this opportunity to provide feedback on the ITC and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Michelle Horaney at 563.888.4038 or Brian Schebler at 612.455.9913.

Sincerely,

**RSM US LLP**

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