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

March 28, 2017

Re: Project No. 3-251 Financial Reporting Model Improvements – Governmental Funds

Dear Mr. Bean,

On behalf of New Hanover County, North Carolina, we are pleased to respond to the invitation to comment of the Governmental Accounting Standards Board on major issues related to Financial Reporting Model Improvements – Governmental Funds.

Overall, we support the near-term financial resources alternative recognition approach for governmental fund financial statements. We feel this approach provides the information desired by primary users of the financial statements – the governing board, County management, and citizens.

We have responded to the various questions below. We would be glad to provide clarification to any of our responses. Please, feel free to contact Lisa Wurtzbacher, Chief Financial Officer, at 910-798-7161.

Sincerely,

Lisa Wurtzbacher  
Chief Financial Officer
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, 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. Both outlooks provide important information to financial statement users. The economic resources focus is important in that it provides an outlook of the government's overall long term financial health. However, the financial resources shorter time perspective provides information regarding how the government is meeting its current financial needs. It also most closely aligns with the government's budget within which we are statutorily required to operate. Changing the budgeting perspective would require a complete change in budgeting practices and focus. Further, budgeting for longer term expenses and revenues would cause significant challenges due to the ever changing political and economic climate.

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, governmental fund financial statements should continue to present information that facilitates comparisons with a government's budgetary information. Governments are held accountable for their performance of budget to actual variances. The Local Government Budget and Fiscal Control Act, North Carolina General Statutes Chapter 159—Article 3, outlines our legal requirements. Therefore, budgetary statements are our most used financial statements.

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 financial resources approach provides the most relevant information as it most closely aligns with governmental operations. Governmental entities are held accountable for meeting budget expectations. Thus, the financial statements providing budget versus actual information are the most used financial statements.

Although the long-term financial resources approach most closely aligns with private industry, does it provide the most benefit to government financial statement users? No, the long-term approach does not provide users of financial statements with information they seek. As indicated above, most users of the financial statements are concerned with the government performed against its budget. By reviewing the government-wide financial statements, users of the financial statements will still be able to see the economic resources focus provided by the long-term approach.

The short-term resources approach provides a combination of both the near-term and long-term approaches. This could cause misinterpretation by readers of the financial statements. Users of the financial statements could easily interpret that all of the government’s liabilities have been recorded when in reality on the liabilities due within one year have been recorded.

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?

We have no comment on this question. We currently do not have any tax or revenue anticipation notes.
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 agree with the financial resources recognition approach where resources are expected to be converted to cash.

We consider prepaid items as financial resources. Our prepaid items are short-term, with most used within 60 to 90 days of year end. All are used within one year. We consider prepaid expenses to be a financial resource because otherwise we would use current financial resources at the time of payment.

We do not consider inventory a financial resource since it is held for a significant amount of time. Unlike most private companies, we do not maintain inventory with the intent to sell, thus ultimately resulting in a financial resource. The inventory maintained is for our own use and may not be used within the next year.

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 beneficial information to the users of the financial statements. The current model indicates the length of time following the end of the reporting period included in this perspective would generally be 60 to 90 days. We recommend a specific time period be provided and that the time period not be more than 60 days following the reporting period to avoid impacting timeliness of the financial statements. Otherwise, governments would wait 90 days or more after the period end to begin writing financial statements. Alternatively, if financial statements were started earlier, required statement updates would generate duplicate work and increased risk of error.

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 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 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 agree a reconciliation is needed to reflect the variances between the government-wide financial statements and governmental fund financial statements. Additionally, we agree the terminology will need to be very clear as to what time period is being included. However, we feel the terminology and statement should be easy to understand and not overwhelm the average reader.

3.1 Which format for the governmental funds resource flows statements - 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 believe The Statement of Near-Term Financial Resources Flows - Current and Long-Term Activity Format (Illustration 4B) provides the most valuable information to the financial statement users. We consider this format to be the most useful as it illustrates when financial resources are being used for long-term activities that are not shown on the Near-Term Financial Resources - Balance Sheet.
3.2 Should a statement of cash flows be required for governmental funds? Why?

No, a statement of cash flows should not be required for governmental funds. A statement of cash flows is currently prepared for proprietary funds; however, very few of our financial statements users utilize the statement of cash flows when arriving at financial decisions.

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

One of the greatest challenges with presenting a statement of cash flows for governmental funds would be the time and effort needed to compile the required information. Information for numerous smaller funds would need to be compiled to arrive at the combined statement of cash flows. We do not believe the additional preparation time would be worth the benefit to financial users. As indicated earlier, very few of our financial users utilize the statement of cash flows currently prepared for the proprietary 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?

We do not agree with adding a statement of cash flows for governmental funds.