GOVERNMENT FINANCE OFFICERS ASSOCIATION OF TEXAS

March 31, 2017

Director of Technical and Research Activities
Governmental Accounting Standards Board
RE: Project No. 3-251
Via email to director@gasb.org

The Financial Reporting and Regulatory Response Committee of the Government Finance Officers Association of Texas (“GFOAT”) would like to take this opportunity to respond to GASB’s Invitation to Comment on concepts related to “Financial Reporting Model Improvements – Governmental Funds.” The GFOAT is an affiliate the Texas Municipal League, which represents over 1,100 Texas cities and towns. The GFOAT’s over 1,000 members represent all levels of state and local government in Texas. Additionally, GFOAT membership represents associates from the audit profession, the investment community, the underwriting community, and a variety of other private-sector finance professionals.

GFOAT thanks the GASB for the opportunity to respond to the questions which have been raised by the Invitation to Comment, and would like the opportunity to discuss these items further at the public hearing scheduled for May 3, 2017 in the North Texas area. Due to a scheduling conflict, we respectfully request the earliest time slot for testimony on that date.

GFOAT is of the opinion that “if it isn’t broken, don’t fix it” and believes that the current reporting model is adequate for the vast majority of users. We continue to express concern that constant updates to accounting standards undermine comparability against a government’s own historical financial statements. Since the introduction of Statement No. 34, numerous additional standards have required restating prior year balances of fund balance and net position. Due to the complexity of these restatements, the majority of governments have not been able to restate prior years and cannot show a 10-year table of net position or fund balance without having some years that are not comparable to each other.

GFOAT also expresses concern on the pace of change. We highlighted this concern in our September 2011 response to a Preliminary Views document on “Recognition of Elements of Financial Statements and Measurement Approaches.” Since that letter was written, 21 additional standards have been issued. As accounting standards have grown more complex, we believe that there is greater room for error in financial reporting as government preparers struggle to keep up. Additionally, we believe that the complexity of financial statements has reached a level where two key user groups, citizens and elected officials, can no longer keep up and reasonably be expected to understand the information provided.
With those points in mind, GFOAT respectfully submits our answers to each question raised below with answers following the text of each individual 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?

GFOAT believes that governmental fund financial statements should continue to focus on a shorter perspective. As a general rule, governments operate on a budgetary basis for daily operations. Reporting on financial resources mirrors the natural operation of governments, and provides the best method of understanding how a government performed during the reporting period for citizens and elected officials.

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, for the reasons presented in our answer to 2.1, GFOAT believes that a core need of financial reporting is a set of financial statements that facilitates comparisons with the government’s budget.

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 current methodology of financial reporting does an adequate job of assessing fiscal accountability, but GFOAT believes that if changes need to be made, the near-term approach is the best solution. Because this approach is the closest to the current methodology, it would minimize disruptions to current accounting practices as well as minimize restatements needed to facilitate change. This approach is also the easiest to understand, and provides the best opportunity for citizens and elected officials to have a partial understanding of a government’s financial statements. Any deficiencies of this methodology are mitigated through the ongoing inclusion of government-wide financial statements, which provide a more complete picture of financial position to more savvy financial statement users.

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 near-term approach is the most valuable, as it shows inflows or outflows of any kind of debt, regardless of the repayment terms associated with the obligation. GFOAT believes that the other approaches may cause confusion, since some long-term obligations may be partially
or fully included (OPEB, pension, tax anticipation notes) but others may be excluded (capital-related debt). This may also lead some users to construe that some long-term activities constitute “good” or “bad” obligations, based on their inclusion/exclusion.

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?

GFOAT believes that financial resources should be those resources that are cash or are expected to be converted to cash. As such, we do not view prepaid items to be financial resources. Although some prepaid items, such as insurance, may have refundable elements, other prepaids, such as extended maintenance contracts, may not be fully refundable. In the same way, inventory is intended to be used within the course of business, and after a certain time, may not be able to be returned for full credit from the supplier. From a governmental fund perspective, it is better to expense these items at the time the decision was made to consummate the transaction, rather than report items at values that may no longer be realizable.

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?

GFOAT would suggest minimizing the kinds of transactions for which reporting deferred inflows or outflows of resources would be appropriate. These accounting concepts are extremely hard to explain to the users who benefit the most from fund level reporting – citizens and elected officials.

2.7 Paragraph 6 of this chapter discusses a same-page reconciliation to government-wide financial 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?

GFOAT does not believe that a same-page reconciliation provides additional benefit, but instead believes that a comprehensive schedule that can follow the main financial statement would prove more beneficial. Since governments are encouraged to include a comprehensive level of detail regarding fund balance classifications on the face of the financial statement, the statement is already crowded. GFOAT suggests that a way to improve the current reconciliation would be to require that a government provide enough level of detail so that additional note disclosures are not required.

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?
GFOAT prefers the existing format (Illustration 6A) for potential reporting changes. This format most closely aligns with current practice, providing the least confusion for citizens and elected officials. We also note that there may be gray areas between classifying transfers between those for current activity and those for long-term activity, mitigating any impact of changing their presentation.

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

GFOAT does not believe a statement of cash flows is necessary, and that the proposed near-term financial statement would provide the same information that would be presented in any additional statement. A belief that a cash flow statement is desirable or necessary is effectively a recommendation of the near-term financial statement. If a different governmental fund presentation were desired along with a cash flow statement, this would result in three different presentations for governmental funds, potentially overwhelming both preparers and users.

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

GFOAT believes that there would be minimal difficulty in presenting a statement of cash flows for the governmental funds, but believes that it is redundant when using the near-term reporting approach.

3.4 Are the four classifications for the statement of cash flows from Statement 9 the most appropriate for governmental funds? If not, what classifications would be the most appropriate?

GFOAT believes that the classifications from Statement 9 are appropriate for governmental funds.

In conclusion, GFOAT reiterates the opinion that a change in the current reporting model is unnecessary, with the major result being another restatement of prior period financial activity with minimal benefit to the end users. If a change is truly warranted, GFOAT is supportive of the near-term approach with no additional cash flow reporting.

Again, GFOAT thanks you for the opportunity to provide feedback on these important accounting issues.

Respectfully:
(submitted via email)

Keith Dagen
FRRR Committee Vice Chair
keith.dagen@cor.gov

Bob Scott
FRRR Committee Chair
bob.scott@cityofcarrollton.com