March 29, 2017

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

Dear Mr. Bean:

On behalf of the Rutgers Center for Governmental Accounting Education and Research (CGAER), kindly accept the following response to the Governmental Accounting Standards Board’s (GASB) Invitation to Comment (ITC) on Financial Reporting Model Improvements – Governmental Funds.

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?**

In light of the current government fund structure and the historic use of the short-term financial resource perspective, it is important to retain this focus for governmental fund financial statements. The use of the long-term approach would be in conflict with the flow of financial resource perspective for the governmental funds. Also, since the long-term financial perspective is already presented in the government-wide financial statements, changing the focus of the government fund financial statements to adopt a longer-term focus will be duplicative. The selection of either a near-term or short-term perspective as outlined in the ITC can initially seem to be arbitrary, however, it is important to retain the notion of fiscal accountability by using either of these perspectives.

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 provide information that facilitates comparison with the budgetary information presented by the government. Since the budgetary statement is, for all practical purposes, the most important statement in the government’s annual financial report and carries the force of law, it is important that this information be provided to the various stakeholders. The budgetary statement should also continue to facilitate comparison between the original budget, any revisions as well as actual amounts that are spent.
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?

We believe that some of the fundamental issues with the current flow of financial resources model involve the possible arbitrariness in the recording of certain transactions. A longer period after the close of the fiscal year would provide a more measured approach towards recording transactions that are expected to occur after the end of the fiscal year. We advocate the use of the short-term approach so that these transactions are fully captured in the financial reports of the government. Although a period of two or three months, or even one year can seem arbitrary, the short-term approach is the most all-encompassing of these approaches. The short-term approach allows for a better integration, better development of relationships, and higher integrity in the budgetary bases utilized by governments.

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?

Transactions relating to tax and tax anticipation notes or revenue anticipation notes should best be reflected as liabilities, rather than inflows and outflows of resources. By their nature, these are liabilities and should be reflected as such on the balance sheet and their activity should be reported in the Statement of Cash Flows. The use of the term inflows and outflows for borrowings or repayments can be confusing to the reader of the financial statement and they may have difficulty with distinguishing these from revenues inflows and expenditures outflows of government.

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?

The definition of financial resources should primarily include cash short-term financial investments, and those resources that can be converted into cash in the immediate future, such as receivables. The inclusion of these short-term resources would obviously be dictated by the period defined by either the near-term or the short-term approaches. Prepaid items can be considered to be a financial resource when they will benefit the following reporting period. However, it would be more problematic to include inventory as a financial resource under these two approaches since we are unable to attribute their use completely to a certain period of time.
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?

With the use of the short-term approach, it is important that a cash flow statement be prepared along with relevant footnotes which highlight the differences between short-term approach and the flow of economic resources model utilized by the governmental wide financial statements. One issue that has been persistent for readers of financial statements of governments are the different measurement focuses utilized by the various statements. It is important that the reader be able to view on one operating statement, for example, an item such as pension expenditure and compare that with pension expense; rather than going through footnotes or other schedules contained in the financial report.

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?

The current method of providing reconciliation between the government-wide financial statements and the governmental fund financial statements is ineffective and difficult for readers to understand. The approach also provides information which is too highly condensed. We believe that the same page reconciliation which provides the individual reconciling items in a column format would be much more effective. For instance, in the operating statement for individual expenditure items, a column could be provided which could include the reconciling number to convert it into an expense using the full accrual basis. This might seem to be a complicated undertaking, but it will provide the reader with the ability to measure the effectiveness of the budget process and determine the true cost of running the government's operation. We believe that this should be a primary driver towards greater transparency. The current approach of presenting two sets of financial statements needs to be enhanced through a clear and effective reconciliation which conveys meaningful information to the reader of the financial statements.

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?

We advocate the use of the proposed current and long-term activity format which provides a much more effective way of conveying financial information to the government's stakeholders. It provides the necessary granularity needed to adequately convey the inflows and outflows of financial resources.

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

Due to the use of the short-term approach, it will be necessary to prepare a statement of cash flows. Despite the complexity of preparing such a statement, we believe that it
provides important information. The illustration contained within the ITC provides an excellent model for the statement.

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

As stated earlier, most governments will have difficulty preparing this statement. In many cases, the auditors of the governmental entity play a large role in assisting in the preparation the statement of cash flows. However, it is integral to the use of the short-term approach and should be prepared by governments.

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 believe that the cash flow categories outlined in the ITC are the most appropriate for governmental funds. The items in the categories are quite clear and will greatly assist the reader in understanding the cash flows from the different aspects of the government's operation.

We will be pleased to assist GASB on this project and answer any questions regarding this very important matter.

Sincerely,

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