March 30, 2017

Director of Research and Technical Activities
Project No. 3-251

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?

Response: We question the usefulness of the shorter term perspective to users. It would seem the only users needing this information are short term lenders and there is much more useful information available to guide their decisions. More importantly, by the time the financial statements are issued the "shorter time perspective" is generally already half over and probably somewhat useless for financial analysis needs.

If the goal is to provide information for governmental funds that can be easily compared to the budget, we believe the current financial resources measurement focus and the modified accrual basis of accounting is the best approach with perhaps one modification. That modification would be to eliminate long-term receivables from the balance sheet. This is the only item in the balance sheet currently that is not near-term in nature that we are aware of.

Our main concern with the short term approach is recording economic resources rather than financial will make the resource flows statement a combination of historical transactions and future transactions with GASB choosing what to display. Using this approach will make the resource flows statement useless for a historical record. We also feel the balance sheet would be somewhat useless as it is a record of just current and partial future liabilities that GASB choose to display.

Also, we question the matching of near-term liabilities and the resources intended to pay them. For instance, recording a principal payment due shortly after the end of the year could be argued proper as a government will be using current resources to make the payment. For principal payments made later in the year the government would most likely be using other revenues generated in the next year that would not be accrued for proper matching (eg. taxes levied for GO bonds). This format would seem to pass accrual based accounting requirements in that they do not adjust debt liabilities for payments in the future. We feel this would erode rather than enhance the financial statements.

If the goal is to make the governmental statements and the proprietary statements more comparable and similar, a full-accrual approach should be used including recording capital assets, separately reporting near-term assets and liabilities from long-term. We cannot understand why reporting all assets and liabilities but capital assets would enhance the usefulness of any financial statement. When other long-term liabilities including pensions, OPEB and debt are reported but not all the assets, fund balance as reported does not correctly reflect the government’s or fund’s position.
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?

Response: Yes it is important as it is the only link that allows users to tie the different statement types to each other.

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?

Response: We do not believe any of the approaches as presented provides accurate information for assessing fiscal accountability for governments. See comments in 2.1 and 2.2 above. We feel the most relevant approach is full accrual to eliminate confusion over two types of presentation. The main problem we have not solved is governmental fund structure mainly regarding debt and capital project funds. For instance, capital assets purchased in a capital projects fund are generally allocated to a general fund department. Using a capital projects fund to record the purchase and then recording the asset in the general fund at the end would probably add confusion to the statements. Furthermore, using debt service funds for GO bonds that were issued for capital projects reported in capital project funds would not match the debt with the asset.

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 borrowing 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?

Response: The City of Helena has not issued tax anticipation or revenue anticipation notes. However, we feel these amounts should be shown as liabilities in the balance sheet. If a government owes these types of notes, a significant amount of resources would not be available to meet other current obligations.

We feel this demonstrates the major fallacy of the short-term approach. A review of Chicago, IL's fiscal year 2015 financial statements shows their governmental fund balance is $983 million positive. The government wide statement of net position for governmental type funds is $24 million negative. The short-term approach seems to give false information to any investor or user of the financial statements by not including all asset and liability balances. Most news articles indicate Chicago is on the verge of bankruptcy, but you couldn’t determine that by looking at the governmental fund statements.

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?

Response: We feel this is like the question of which came first, the chicken or the egg. Both the definition and presentation need to work together. It seems the best approach would be to determine what the users need, and then the resource definition should clarify that presentation and why it helps meet the users needs.

As stated in our response to 2.1, we believe either the current financial resources measurement focus or full accrual should be used depending on the goal of these statements. We see the following issues with the three methods proposed:
• Near-term – Inventories and prepaid expenses are not reported. This provides incomplete information as not having to purchase these items leaves cash available for other purposes. Alternatively, a decrease in inventories and a low cash balance could indicate cash flow difficulties in the future. Although probably not material in most cases, this could make a government’s financial position appear worse, or better, than it actually is.

• Short-term – Although this approach seems to add more consistency to balance sheet items, accruing inflows and outflows of resources for the next fiscal year results in reflecting information regarding a future period (next fiscal year) in the resource flows statement, rather than showing historical information. It would also appear to cause revenue and expenditure matching problems as noted in other areas of this response.

• Long-term – Reporting all long-term liabilities, but not all long-term assets (capital) materially understates fund balance, and will make governments appear to be doing much worse than they actually are.

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?

Response: Please see comments above. If GASB determines a shorter term approach is necessary the best option is using the current modified accrual method and eliminating long-term receivables. We question if these statements are valuable and believe full accrual for all statements would provide the most consistent information and understandable format for users.

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?

Response: We believe suggested changes are effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements. However, using full accrual based statements only would eliminate the need for government-wide statements and the reconciliation.

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?

Response: Unless the full accrual format is used, we feel the current format is most useful. It provides historical information for the period reported on, instead of a compilation of historical and future spending. If a reporting method is selected that includes reporting long-term items, using the current and long-term activity format would provide users a way to determine a shorter term perspective by backing out long term balances. However, splitting some items may present challenges. In the current and long term approach, transfers in and out must be split by whether they are short or long term in nature. This would force management (the commission) to clearly state their intent for all transfers: Will they be used in the short term, or are they intended for a project in a future period? This is not something that is currently clear from evidence readily available and is often a timing issue or up to management discretion. Again, we feel it would be difficult to present a matching of short-term revenues with short-term liabilities in many cases.
3.2 Should a statement of cash flows be required for governmental funds? Why?

Response: A governmental statement of cash flows would provide another method of tying governmental fund statements to government-wide statements and to budget to actual statements. However, we feel the benefits outweigh the costs for governments as mentioned in the response to 3.3. If full accrual statements and cash flows are presented we should use the same format as accrual based funds use now for consistency and comparability.

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

Response: The biggest difficulty that could arise in presenting a statement of cash flows for governmental funds could prove to be the time and effort required to do so. A statement would have to be prepared separately for each fund, and then combined for the Other Governmental Funds column. This should be fairly simple for most funds (special revenue funds with a narrow purpose and debt service funds), but could prove to be quite complicated for the General Fund. Given the number of non-major funds some jurisdictions have, even though straight-forward, this could require a HUGE amount of time and effort. The City of Helena is fortunate to only have 16 governmental funds. The county we are located in (Lewis and Clark) has 87. Neither of us would be considered a large entity. Lewis and Clark’s current population estimate is 63,395.

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?

Response: If a statement of cash flows is required, the four classifications from Statement No. 9 would be the most appropriate, as they would provide some consistency between governmental and proprietary fund statements. We feel the multiple formats and terminology causes great confusion for any user other than “knowledgeable” users.

Thank you,

Glenn Jorgenson, CPA  
Administrative Services Director  

Liz Hirst, CPA  
Controller