March 31, 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:

We are writing to you on behalf of Government Finance Officers Association of the United States and Canada (GFOA) in response to the Governmental Accounting Standards Board’s (GASB) Invitation to Comment (ITC) on Financial Reporting Model Improvements – Governmental Funds. This response was prepared by GFOA’s standing Committee on Accounting, Auditing, and Financial Reporting (CAAF), all of whose members are active government finance officers. GFOA supports the idea of standardizing the recognition of financial resources in the governmental fund financial statements. GFOA is a proponent of maintaining that governmental funds should report near-term financial resources, as governmental fund financial statements should be able to convey to users of the financial statements how the government performed within the context of the annual budget. The ideas presented for the short-term and long-term approaches are inconsistent with our stance, since governmental funds should not report all financial resources. We have provided responses to the questions as listed in the ITC for your consideration.

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?

GFOA strongly believes that governmental funds should continue to present information that reflects a shorter time perspective and that focuses on financial resources. Governments must demonstrate fiscal accountability (the raising and spending of public moneys in the short term) to the citizenry and other stakeholders. Since most governments prepare their budgets and manage their operations on an annual cycle, the use of a shorter time perspective best fits that need. It would be difficult, if not impossible, to measure fiscal accountability (a short-term concept) if long-term assets and liabilities and the related annual changes are incorporated into the governmental funds.
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?

The governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information. The purpose of the funds is that they should relay the results in the context of the budget. Since governments prepare budgets based on how resources will be received and used during one period, the governmental funds should present how resources were received and used for the same period. Incorporating revenues and expenditures that are for the next period or beyond would not be beneficial in assessing how the government performed in relation to the budget for the current fiscal year.

The presentation of a budget-to-actual comparison statement can provide reasonable assurance to governing boards, citizens and other users of the financial statements that the government maintained budgetary compliance during the fiscal year. Governments should continue to be afforded the opportunity to include the budget-to-actual comparison as a basic financial statement so that it would be included within the scope of the independent auditor’s report. GFOA has encouraged governments to present the budget-to-actual comparisons as an audited financial statement because of the importance of maintaining budgetary control; an unaudited schedule that is required supplementary information weakens this importance.

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 approach would provide the most relevant information for assessing fiscal accountability of the government. The near-term approach most closely resembles the current basis of accounting for governmental funds and the budgetary basis used by the majority of governments. The near-term approach also provides the best reflection of the funds available for immediate use in the next period.

A potential concern with the near-term approach is the accrual of interest, which could cause a deficit in a debt service fund that is designed to “break-even” each year.

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?

We would be in favor of reporting the tax and revenue anticipation notes as inflows and outflows of resources in the governmental funds statement of resource flows, as they represent available resources. One concern we have is the potential of double counting of inflows and outflows if the notes are borrowed and repaid in the same fiscal year as the revenue that was anticipated is received. A possible solution would be to classify the repayment of the anticipation note as an other financing use rather than as a debt service expenditure. This would also keep debt service
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?

A definition of financial resources that provides the most valuable information is “cash and resources that are expected to be converted to cash.” Based on this definition, inventories will not be converted to cash and prepaids will most likely not be converted to cash for governmental funds. If any material balances of inventories or prepaids exist, they would be reported in the government-wide financial statements.

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?

The near-term approach provides the most valuable information; however, a range of days would likely cause inconsistencies across government financial statements. The use of one uniform period should be included in the final pronouncement.

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?

We support keeping all information on one page to reduce the number of pages necessary to reconcile the two bases of accounting; however, the reconciliation examples presented in the ITC seem too summarized. The description on the top of the financial statements does not add any value, as this information would have to be communicated in the notes to the financial statements. It may be more useful to include a column to the right of the total governmental funds column that provides the amounts of adjustments needed to reconcile each line to the amount reported in the government-wide 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?

The existing format for governmental fund resource flows provides the most valuable information. The proposed current and long-term activity format would be confusing to readers of the financial statements.
3.2. Should a statement of cash flows be required for governmental funds? Why?

A statement of cash flows should not be required for governmental funds. If the near-term approach, or something similar, is adopted by the GASB, the governmental funds statement of resource flows would largely equate to a statement of cash flows. We also feel that the time and effort to prepare a statement of cash flows outweighs the benefits derived from the presentation.

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

The preparation of the statement of cash flows would be an exercise performed only once a year, and the extra time and effort incurred by financial statement preparers would outweigh any benefits that would be achieved from preparing the statement. As stated in our response to question 3.2, the near-term approach would largely equate to a statement of cash flows for governmental 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?

As stated above, GFOA does not feel that a statement of cash flows is necessary for governmental funds.

If you have any questions regarding our position, please contact GFOA's Acting Director of Technical Services, Todd Buikema (312-578-4407; fax: 312-977-4806; or e-mail: tbuikema@gfoa.org).

Sincerely yours,

Melinda Gildart, Chair
Committee on Accounting, Auditing, and Financial Reporting

Melanie Seale, Vice-chair
Committee on Accounting, Auditing, and Financial Reporting