March 23, 2017

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Norwalk, CT

Dear Mr. Bean:

On behalf of the professionals serving governmental entity clients at CliftonLarsonAllen LLP, we appreciate the opportunity to comment on the topics discussed in the Invitation to Comment - Financial Reporting Model Improvements—Governmental Funds in the early stages of this process.

As noted during the pre-agenda research, overall the current financial reporting model is working well. We believe the governmental financial statements should continue to present information that reflects a shorter time perspective than the information presented in the government-wide financial statements and focuses on financial, rather than economic resources.

We also believe the governmental funds should continue to present information that facilitates comparisons with the government’s budgetary information. Budgetary comparisons are a critical tool for managing financial resources, communicating fiscal accountability to taxpayers and other users, and matching the use of the resources to the sources of funding.

Preparers and users of the financial statements are accustomed to and understand the current financial resources measurement focus and modified accrual basis of accounting. The reconciliation of the governmental fund financial statements to the government-wide financial statements demonstrates the differences between the modified accrual and accrual accounting basis. Along with the accrual government-wide financial statements, and notes to the financial statements, we believe the users of the financial information receive the data they need to make decisions on the short-term and long-term basis.

In our opinion, the current format of the governmental fund statement of resource flows presents sufficient information to the users in the form of revenues and expenditures and other financing sources and uses. The proposed change to present inflow and outflows (separating current and long-term activity) is an unnecessary modification. Revenues and expenditures are similar to financial statements used in the business world and there is no reason to deviate from that terminology. Our view is that a statement of cash flows for governmental funds is unnecessary. It would not add enough useful information to outweigh the cost of preparation, especially if the financial statements continue to be presented under the current financial resources measurement focus and modified accrual basis of accounting.

The Board is seeking input in question 2.4 related to the reporting of tax anticipation notes and revenue anticipation notes and indicates treatment is different between the proposed near-term approach than in the short-term and long-term approaches.
While we do not support a switch to any of the three proposed methods, our recommendation is to include such financing as a liability on the balance sheet, as is currently done in the current financial resources measurement focus and modified accrual basis of accounting. Governments issue these types of financing notes as a short-term cash flow measure. The proceeds are used in operations until the revenue is collected and the notes repaid. The purpose is different than other long-term financing used by governmental entities. Therefore, these amounts should continue to be reported as liabilities. Including proceeds as part of governmental fund balance could be misleading to users of those financial statements.

We recommend the Board continue to establish rule-based standards to address complex transactions to promote consistency in application. In doing so, the Board should consider the impact on the use of short-term financial resources when deciding how these items would be reported in the governmental funds. Many times these transactions do not affect short-term financial resources and are better reflected only in the longer term full-acrual government-wide financial statements.

We understand the reasons why the Board is exploring the use of an underlying conceptual foundation to support the governmental fund financial statements, but we do not support starting with a new recognition approach. We advocate for continued use of the existing approach and format of the governmental fund financial statements, with improvements made toward those areas where there is currently a lack of guidance or inconsistencies in application.

In the balance of this letter, we will describe needed improvements to the current financial resources measurement focus and modified accrual basis of accounting and suggest alternatives for the Board’s considerations in three areas: (1) period of availability; (2) prepaids and inventory, and (3) matured liabilities. Each of these areas has the potential to cause incomparability among governmental fund financial statements under existing guidance due to differences in application.

**Period of Availability**

The standards for use of the current financial resources measurement focus and modified accrual basis of accounting (MFBA) are established by paragraph 62 of National Council on Governmental Accounting (NCGA) Statement 1, Governmental Accounting and Financial Reporting Principles. Pursuant to that guidance, governmental fund revenues should be recognized in the accounting period during which they become both measurable and available. Available is defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. With the exception of property taxes (not to exceed 60 days per NCGA Interpretation 3), GASB has not established standards that prescribe a time period for the availability criterion.

In the absence of such criterion, governments have internally defined availability criterion to be applied consistently to non-exchange revenues other than property taxes. The criteria used by governments may vary widely, creating inconsistency in practice and reducing comparability of governmental fund financial statements. Additionally, it is possible that recognition by two governments involved in a non-exchange transaction may be asymmetrical. That is, when one government recognizes an expenditure, the other government may not necessarily recognize revenue if its defined availability criteria have not been met.

While each individual circumstance may have aspects that would legitimately cause asymmetry, defining “soon enough thereafter to be used to pay liabilities of the current period” may reduce these instances. This would also increase the usefulness of governmental fund financial statements in providing a comparison of non-exchange revenues between governments.
We recommend the Board prescribe a period to be used, defining the period of availability, similar to the near term concept described in the Invitation to Comment.

**Prepays and Inventory**

We agree with the Board seeking input related to whether or not prepays and inventory should be reported as assets in governmental funds. These items do not neatly fit into the current financial resources measurement focus and modified accrual basis of accounting. In addition, the option of using the purchases method or consumption method offered in the GASB Codification 1600.127 may cause lack of comparability between governmental financial statements of issuers based on the inventory accounting policy elected by each. Similar options for prepaid expenses in that same literature has the same result.

We believe inventories and prepaid items should be reflected as assets in the governmental funds to promote comparability in financial statements. Management has the ability to manipulate fund balance if these amounts are not recorded as assets by spending in these areas near year end to use “budget capacity” and accelerate expenditures. We believe the Board’s Statement No. 54 effectively classifies these assets as nonspendable fund balance, which indicates although use of the succeeding year’s financial resources will not be necessary, this fund balance cannot be spent for other expenditures.

We recommend modification of the standards for consistency in treatment. Instead of management electing an accounting policy on prepaid items and inventory, we recommend the standards require recording of all material prepays and inventory and continued reporting of these assets as nonspendable fund balance.

**Matured Liabilities**

Significant differences in interpretation exist in GASB Codification 1500.116-.119 Modified Accrual Recognition of Liabilities and Expenditures. This guidance defines matured liabilities as those liabilities that are normally due and payable in full when incurred and the matured portion of general long-term indebtedness. In addition, compensated absences, claims and judgments, termination benefits, landfill closure and postclosure care costs, and receipts of goods and services for pollution remediation should be recognized as governmental fund liabilities and expenditures to the extent the liabilities are “normally expected to be liquidated with expendable available financial resources.” This terminology is subject to interpretation and inconsistently applied.

We recommend the Board improve the consistency for reporting such items by including in the standards a timeframe in which these other long-term liability amounts would be paid that will establish whether or not the amounts should be reflected as a liability in the governmental fund financial statements. We recommend the Board prescribe a period of time, similar to the near term concept in the ITC.
In closing, we urge the Board to refrain from issuing standards that include significant changes to the existing financial reporting model for governmental funds. Adoption of a new recognition approach is unnecessary, costly and would not result in improvements the Board is seeking. None of the proposed approaches are more understandable than the current financial resources measurement focus and modified accrual basis of accounting.

Respectfully submitted by

CliftonLarsonAllen LLP