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Texas Association of County Auditors

March 30, 2017

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Project 3-251 – Financial Reporting Improvements - Governmental Funds

We appreciate the opportunity to respond to the Invitation to Comment. We offer our responses to some of the questions posed in the ITC as well as some general comments.

Chapter 2: Recognition Approaches for Governmental Fund Financial Statements

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?

Yes. The governmental fund financial statements provides information on where a government obtains its resources and how those resources were used or will be used in the subsequent period. In Texas, the short-term perspective is statutory – the budget can only be for one year at a time for local governments. The primary purpose of governmental accounting and reporting is to assure there was no waste and abuse in the use of the public funds - were the funds used effectively and were the funds approved for the use. Governmental funds report on individual governmental activities during a year. Fund financial statements are specific as related to revenue and expenditure in that they are controlled by a budget (some fixed, and some flexible). The majority of users of county governmental financial statements rely on the information presented in the fund level statements to assess their government’s financial health. These statements contain detail at a more understandable level and in a more recognizable format. While the government-wide statements provide a long-term view of the government’s overall financial health the government-wide statements fail to provide the detail that would allow stakeholders the ability to evaluate the use of the public 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?

Yes. The current fund structure is crucial to facilitate comparison with the government’s budgetary information. The budget is a required legal document. The budgetary process and the ability to examine actual compared to budget is a form of managerial accounting. The comparison of actual to budget allows stakeholders at year-end to see that management has complied with their legal responsibilities. It is also facilitates the ability to develop a trend analysis.

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?

There are varying views even among our own membership as to which of the three recognition approaches provides the most relevant information. Reporting and auditing the basic statements (i.e., excluding the government-wide) is straightforward and reflective of the budget to actual intent of comparing the short-term financial results indicative of a government. The project description states:

“The objective of these improvements would be to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government’s accounting and address certain application issues, based upon the results of the pre-agenda research on the financial reporting model.”

In this instance such an objective fails; the model does not provide information essential for decision-making, but obscures it with a lot of technical details. Addressing application of the GASB statements does not seem to lend itself to the reading and understanding of the results of financial operations. If there is a need for such technical interpretation, perhaps it should be in a separate supplementary document supporting the audited governmental statements and not be in the body of the primary report.
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?

The current terminology of revenues and expenditures should be retained. Also, one of the least understood and least defined terms is “Function.” It seems to be defined differently by each local government, even within the limited world of Texas counties. By not requiring and defining specific functions for reporting, the interpretation does not accurately reflect or allow comparison to other similar government entities. This is not to say that every entity would have the same functions, but it would ensure the functional classifications, if properly defined, would allow the government to align with its organization and responsibilities.

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?

We do not believe that “same page reconciliation” is any solution – it would seem to just clutter the report. While we support providing a note on the statements notifying the reader that the governmental funds financial statements are presented with a shorter term view, the reader should also be directed to the MD&A and the specific note to the financial statements that discuss the two presentations. Our experience is that most users of our financial statements do not read the whole CAFR. Additional information on the financial statements could encourage some readers to actually read the MD&A and Notes to the financial statements.

How could those differences be communicated more effectively?

The current format of providing the reconciliation as a separate report should be retained.

Chapter 3: Other Governmental Fund Financial Statement Issues

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 would be less confusing to the reader. The existing format is a recognizable format. In addition, as stated in our response to question 2.6, the use of inflow and outflow terminology would be too confusing to most readers of our financial statements. The current terminology of revenues and expenditures should be retained.

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

Providing a statement of cash flows would just add another reporting component that would require additional time and cost but not provide any real benefit to the users of the financial statements.

In summary, we are concerned about the increasing reporting complexity of the basic financial statements in addition to increasing cost and time required to adopt the ongoing changes made by GASB that seem to benefit only one type of stakeholder.

Paragraph 72 from Concepts Statements 1 – Objectives of Financial Reporting, issued in May 1987 states:

“Users of state and local governmental financial reports are diverse; their needs may be equally diverse. As a result, it may be impossible to provide information in any one report sufficient to meet all the needs of all users. Consequently, the type and amount of information provided in general purpose financial reports generally should be based on the common needs of users”

and from the Preliminary View document (project 3-20) issued in 2011:

“The understandability characteristic recognizes that users of financial statements have varying levels of knowledge about financial reporting and that information should be presented as simply as possible”.

We believe the GASB has forgotten these fundamental statements. Over the years, GASB standards have made the basic financial statements more complex and difficult for non-technical users. A citizen’s right to know and holding governments publicly accountable does not mean making the governmental financial statements so complex that only those with an advanced degree in finance or accounting are able to understand the statements.

In fact, there are several issues related to the complexity of the statements and their lack of usability. With the complex issues to be addressed in the financial statements, even as currently presented, we find it impossible to issue the results of transactions in a timely fashion. Without timeliness, it ceases to be a vehicle for demonstrating accountability and stewardship. We find that County Management does not use it; department heads and elected officials don’t use it; the average citizen has no idea what is in it; and the cost to prepare, audit, and publish seems to grow each year, even if the governmental entity is not growing.
It is worth noting that more and more governments are producing what the GFOA calls a popular annual financial report (PAFR) in addition to the CAFR. The PAFR is designed to provide citizens and other interested users with easily understood information on a government's finances and economic condition because the CAFR is too technical in nature. Unfortunately, many smaller governments do not have the resources or personnel to produce both of the reports.

This response to the Invitation to Comment on the Financial Reporting Model Improvements – Governmental Funds Project 3-251 has been presented to the Texas Association of County Auditor’s Board of Directors and approved for submission to GASB.

Respectfully Submitted,

Heidi Franzen, CPA
GASB Review Committee Chair
Texas Association of County Auditors