March 30, 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, Connecticut 06856-5116

Dear Mr. Bean:

We are pleased to comment on the Governmental Accounting Standards Board’s (GASB or Board) Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds* (ITC).

We are supportive of the GASB’s continued efforts to improve financial reporting for governmental entities. We agree that current governmental fund financial statements, which present information using the current financial resources measurement focus and modified accrual basis of accounting, have certain shortcomings in providing useful and effective information to users.

In preparing our response to this ITC, we considered viewpoints from each of the primary user groups identified in paragraph B1: citizenry, legislative and oversight bodies, and investors and creditors. We acknowledge there are advantages and disadvantages to each of the three recognition approaches described that may ultimately impact each of these user groups differently. Our responses to the questions contained in the ITC are reflective of what we believe would provide the most useful information to the “collective group” of users of government financial statements.

**Long-Term (Total Financial Resources) Approach**

We believe the long-term approach provides financial statement users with the information necessary to assess the full cost of providing governmental services and will be beneficial for governments in evaluating the ability to maintain service levels and fulfill not just current, but also future obligations. Acknowledging that each of the three approaches introduced in the ITC represents a dramatic change in governmental fund level reporting, we stress the importance of the Board to fully consider the implementation effort that will be required for each of the approaches presented. This would especially hold true for those smaller governmental reporting entities with limited financial reporting resources.

Our detailed responses to the questions presented in the ITC are included in Attachment A.
In summary, we want to reiterate our support of the Board’s initiatives to improve financial reporting for governmental entities. Thank you again for the opportunity to provide our comments and feedback.

Please contact Scott Lehman at (630) 574-1605 or scott.lehman@crowehorwath.com or Kevin Smith at (214) 777-5208 or kevin.w.smith@crowehorwath.com should you have any questions.

Cordially,

Crowe Horwath LLP

Crowe Horwath LLP
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?

We do not believe the 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. While the focus of the governmental fund financial statements is currently on financial resources and short-term operating activity, which is beneficial to users who are focused on budgetary effectiveness, we believe the information reported doesn’t portray the most accurate reflection of the governmental funds’ financial resources and commitments, which can negatively impact the other users’ assessments of the government’s overall financial condition. Due to other changes resulting from recently issued governmental accounting standards, such as those related to service concession arrangements, non-exchange financial guarantees, certain asset retirement obligations, and post-retirement benefit obligations, there has been an emphasis on accounting for transactions with long-term resource and commitment consequences within the government-wide financial statements. We are concerned that the exclusion of this long-term activity in the governmental fund financial statements creates a risk that governments and external users of governmental fund financial statements will make short-term decisions and evaluations without consideration of all of the long-term obligations of the governmental entity.

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 presentation of financial statements that facilitate comparisons to a government’s budgetary information is an essential element for a government’s management, governing body and constituents. This information provides these users a method of monitoring fiscal accountability as well as influences spending decisions that are made in the future. Therefore, we believe budgetary information for a government’s major governmental funds should continue to be reported as Required Supplementary Information (RSI) following the government’s budgetary basis. The respective differences between the government’s unique budgetary information and the GAAP information presented in the fund financial statements may likely be best explained in the notes to the RSI.

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?

Although fiscal accountability is defined in the ITC to reflect a shorter time perspective than government-wide financial statements, we believe it is essential for governmental fund financial statements to be transparent in presenting certain long-term obligations as discussed in our responses to Questions 2.1 and 2.2 above.
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 of resources 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?

Consistent with the reasoning in our response to Question 2.1, we believe the presentation of tax anticipation notes or revenue anticipation notes as liabilities on the balance sheet provides the most valuable information. These transactions are borrowings rather than sources of revenue and should be presented consistent with other debt financing under the long-term approach.

As noted in paragraph 19.d. of the ITC, one of the challenges of the near-term approach is a greater risk for “the potential for material inconsistency and systematic management of reported results from period to period… as a result of the deliberate action or inaction of a government's management.” If the Board adopts the near-term approach, we believe a modification should be made to require tax anticipation notes or revenue anticipation notes to be presented as liabilities on the balance sheet.

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?

We agree with the Board’s definition of financial resources under the long-term approach in paragraph 29 of Chapter 2 of the ITC which views prepaid items as claims to goods or services and inventory as consumable goods. Hence, we believe prepaid items and inventory should continue to be presented on the balance sheet.

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?

We believe the long-term approach, as currently described in the ITC, is the most preferable. We do not have any additional suggested changes to increase its usefulness at this time.

With respect to changes in financial statement terminology, we considered the Board’s discussion in paragraph 3 of Chapter 2 of the ITC that states “the use of this terminology is not meant to imply that any final determinations related to governmental fund financial statement terminology have been made.” We would like to emphasize that we do not support changes to financial statement element terminology, such as the changes presented in Illustrations 3 through 8 of the ITC, as we believe these changes would only add additional complexity to the unique and already complex governmental reporting presentation.
2.7. Paragraph 6 of this chapter 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?

Regardless of the decision between short-term, near-term, or long-term governmental fund financial statements, we believe some modification to the reconciliation to the government-wide information from current requirements is necessary. Currently, this reconciliation is often regarded as a tool to assist in the review of the two sets of statements rather than a useful source of financial information on which to base judgments of financial performance or base forward looking decisions. We believe the current general explanation of the differences between the two sets of financial statements that is presented in the notes to the basic financial statements and management’s discussion and analysis is sufficient, although the addition in the headers of Illustrations 7 and 8 of the differences between the governmental fund statements and the government-wide financial statements appears to be an equally concise and effective way of communicating the differences between the two sets of statements.

If the long-term approach is adopted, we do not believe a detailed reconciliation is needed within the basic financial statements due to the limited nonfinancial resource categorical differences that would exist between the two sets of statements.

If the Board elects to retain these reconciliations within the basic financial statements, we do not support the same-page reconciliation approach as this would only further convolute an already complex and lengthy governmental fund statement presentation. Furthermore, we request that the Board establish more standardized terminology for the various reconciling items in order to create consistency amongst governmental entities.

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 believe the existing format for the governmental funds resource flows statement, which generally presents inflows and outflows of resources considered revenues and expenditures separately from those flows that are reported as other financing sources and uses, is preferable over the current and long-term activity format. The advantages for retaining the existing format center on its similarities to existing income statement formats found in other industries. The understandability of the revenues, expenditures (expenses), and other financing sources/uses (non-operating) flow and format of the statement greatly outweigh any minimal advantages found in the current and long-term activity format. The confusion and cost in understanding and preparing the proposed format also likely overshadow any potential improvements gained.

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

We believe a statement of cash flows should be required for major governmental funds if the long-term approach is adopted. Since the long-term approach is the furthest from a cash measurement focus than the other two proposed approaches, the presentation of a statement of cash flows could provide beneficial information about the government’s cash inflows/outflows that might not be readily identifiable from the statement of long-term financial resource flows. We agree with the Board’s viewpoint that a statement of cash flows should not be required under the near-term approach however we also believe that a statement of cash flows should not be required under the short-term approach as it does not provide sufficient useful information that outweighs the cost and effort required for its preparation.
3.3. **What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?**

Adding another layer of financial reporting will likely prove challenging to smaller governmental reporting entities with limited financial reporting resources. In order to comply, additional costs may be required to either hire additional accounting staff, enhance IT systems, or engage external CPAs to provide non-audit services to prepare the statement of cash flows for governmental funds. In addition, adding a new statement to the basic financial statements would likely increase audit costs.

3.4. **Are the four classifications for the statement of cash flows from Statement 9 the most appropriate for governmental funds? If not, what classifications would be most appropriate?**

We believe the four classifications for the statement of cash flows from Statement 9 to be appropriate for governmental funds. However, we suggest that the Board provide additional categorical examples and guidance to ensure consistency. This would include the level of detail required and the proper classification of certain transactions such as taxes and related party transactions, including those transactions with component units.