March 31, 2017

Mr. David R. Bean  
Director of Research and Technical Activities  
Project 3-25I  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

We have reviewed the Governmental Accounting Standards Board (GASB) Invitation to Comment (ITC), Financial Reporting Model Improvements – Governmental Funds, and are pleased to offer our comments.

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 – we believe governmental funds should continue to present information that reflects a shorter term perspective and that focuses on financial resources. Governments, by nature, were meant to combine its citizens resources in an effort to supply services determined to be for the good of the community which the private sector couldn’t (or shouldn’t) provide effectively and efficiently (such as public safety or defense). As a result of this mission, we believe the most significant purpose of the government’s financial statements is to show the citizens and legislators how the government spent the resources (primarily taxes) provided that year for these services. Preparing governmental fund financial statements with a shorter term perspective and which focus on financial resources provides information which directly presents how these resources were spent, and how much remain to be spent in subsequent years, in a manner that is easier for legislators and citizens, who often do not have a significant background in accounting, to understand and utilize. While this may not supply investors, creditors, or those looking for a more long-term view of the government’s financial position with important information that they need to analyze the government’s performance, this information is presented in the government-wide financial statements.
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 – we believe governmental funds financial statements should continue to present information that facilitates comparisons with the government’s budgetary information. Following along with my response to Question 2.1. The budget is more than just a management tool for a government, the budget goes through a very formalized process which often allows for public input and reflects the decisions made by the legislative body about what resources are necessary to spend that year, and on what they should be spent. Having a financial statement that can reflect the actual results of the government and that can be compared to the budgeted amounts provides important information to the citizens and legislators to show whether the resource allocation (or budget process) was adhered to during the year.

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?*

With a goal of trying to achieve the objectives discussed in our responses to Questions 2.1 and 2.2 above, we believe the near-term statements reflect the activity, for the year reported, better than the other two alternatives and provide the best starting point for what resources are available to be allocated moving in to the following year. This would provide information that is most easily understood and useful for the legislative and citizen users of the government’s financial statements. While the short-term perspective also reflected the desired shorter tem presentation of the statements, we believe that many of the accruals, particularly the ones which reflect the short-term amounts due on long-term liabilities, would be very confusing for a non-accountant user of the government’s financial statements.

2.4 *Transaction 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 reports 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. Which approach to the reporting of these notes proves the most valuable information? Why?*

While we have, in the responses above, responded that we believe the near-term perspective provides the best information for the governmental funds, it does provide some concern that a tax anticipation note would not be reflected as a liability. That concern may be founded in the fact that tax anticipation notes have traditionally been accrued in the governmental fund financial statements. While we believe that once stakeholders get used to the presentation of these tax anticipation notes using the near-term perspective that presentation of them as an inflow of resources in the year of issuance may not cause a problem, it would seem to be ideal to attempt to continue to reflect these as liabilities in 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?

We consider financial resources to be resources that are cash or typically converted to cash. We don’t believe inventory are financial resources. For governmental funds, inventory is most often not converted to cash, but rather represents supplies to be used in subsequent periods. Likewise prepaid items are typically not refunded or converted to cash to provide services. As a proponent of the near-term perspective for the reasons previously described, we believe one of the important aspects of the governmental fund financial statements is to provide legislators and citizens with an idea of the amount of resources on hand at the end of the period which are available for subsequent year spending. As prepaid items and inventory are rarely converted to cash for a governmental fund, we believe excluding them from the balance sheet would provide for the useful information of resources available. We do have some concern that prepaid items could be used by a government to manipulate results from one year to the next in a manner which could be significant – such as prepaying a pension contribution or a year’s worth of insurance premiums which wouldn’t due or the related service provided until the following month. We don’t have this same concern for inventory as we don’t believe the amount of inventory needed, even for a long period, would materially impact a government’s 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?

While we prefer the near-term financial perspective, we do see that it could most easily be manipulated by management. We would suggest doing as much as the Board can to prevent this – such as prescribing the time period for near-term recognition – either 60 or 90 days seems appropriate. We also have significant concerns about the concept of “normally due”. Most significantly, the definition in footnote 5, which defines “due” as “when payment is scheduled or expected to be made”, seems to open the door for management to simply delay payment on liabilities for even normal trade payables in order to manipulate results. We believe that a liability should be recorded for goods and services received by the government, for which payment is due to be paid to the vendor (according to the vendors terms) within the near-term period and not limiting the accrual to whether it was actually paid or not within the near-term period. It is also possible that prepaid items need be considered financial resources for the concern described in my response to Question 2.5.

One of the other drawbacks of the near-term is that there are still some current portions of long-term liabilities which may be due within the next year which are significant. I would suggest that consideration be given within the one page reconciliation of the government-wide financial statements to separate liabilities between the amounts due in the short-term from amounts due in the long-term. Understanding that language is proposed in the reconciliation to indicate the shorter versus longer term perspective, I think more could possibly be done, within the reconciliation, to present amounts due within one year separately from amounts due in more than one year.
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 term 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?

Please see response to Question 2.6 regarding 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?

I believe that the current and long-term activity format of the governmental funds resource flows statement provides more valuable information. While both statements do break out current, capital, and debt service activity (which is a valuable distinction to most readers of the financial statements), the new format would make the distinction between these activities more clear than the current flows statement. We are not totally sure that the difference is enough to warrant the cost of an overhaul of the statement, but we do think the newer format is better.

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

As an advocate for the near-term statements – if those statements are ultimately chosen, then a cash flow statement for the governmental funds would not be necessary as the statements are already close enough to cash basis to provide information to a reader. If the long-term perspective is chosen, then we believe a cash flow statement would be necessary to provide the information we believe to be important as discussed in the responses to Questions 2.1 through 2.3.

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

Other than being time consuming and being almost duplicative information if the near-term statements are chosen, we don’t believe a cash flow statement for the governmental funds would be difficult.

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?

It would seem that the four categories currently used are still appropriate.
We appreciate the opportunity to provide input into the process you are undertaking in re-evaluating the financial reporting model. If we can be of more help in the process, please let us know.

Sincerely,

MAULDIN & JENKINS, LLC

[Signature]

Joel Black