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. Governmental funds are driven by non-exchange transactions, therefore, the focus is on the direct use of resources rather than the economic benefit derived by the provider of those resources.

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. Because of the focus on direct use of resources, budgetary information is often the most scrutinized information for governmental funds. However, since there are no universal guidelines for budgetary preparation, having GAAP statements that are easily comparable to budget information allows for comparability between governments.

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. The importance of the governmental funds is matching resources derived from non-exchange transactions as opposed to business-type funds which seek to match the generation of resource from exchange transactions to the economic benefit provided.

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?

In our opinion, any of the approaches provides the same information.

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?

Financial resources are items that are expected to be converted to cash. We do not consider prepaid and inventory items to be financial resources because they are not expected to be converted to a spendable form.

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?

No changes.

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?

Yes. Same-page reconciliation and clearer descriptions will help users understand that governmental fund financial statements present governmental fund activities that are short-term in nature and exclude items of a long-term nature.
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 provides the most valuable information. It is more consistent with our budgetary presentations. Other financing sources and uses are shown separately because these flows are not considered revenues or expenditures related to the basic operations of the government.

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

No. The near-term focus is considered to be a relatively short period and is relatively close to a cash measurement focus.

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

None.

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?

Yes.