March 31, 2017

David Bean
Director of Research
Project No. 3-251
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Invitation to Comment (ITC), Financial Reporting Model—Governmental Funds. We support the board’s effort to establish a cohesive, conceptual foundation for the governmental funds. We also commend the board for seeking areas to improve the timeliness of government financial reporting. Thus, we offer our responses and suggestions to the questions presented in the ITC.

Question 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 believe the governmental fund financial statements should continue to reflect a shorter time perspective focusing on financial resources because this will achieve the fiscal accountability objective. We also believe it is important that the governmental fund financial statements present information differently than the government-wide statements; otherwise, there would be no need for the governmental fund statements as basic financial statements.

Question 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? We agree with the board that budgetary comparison information should continue to be presented as RSI or SI, but not as a basic financial statement. However, one could make an argument that because the board does not establish GAAP for budgetary accounting, budgetary information should not be a required presentation or disclosure. Instead, the budgetary information could voluntarily be presented in SI using the preparers professional judgment to demonstrate compliance.

Question 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? We believe the near-term approach provides the most value-added information for assessing fiscal accountability and better matches when available resources pay obligations when due (which is normally within 90 days of the fiscal year end).
Question 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? We agree with the near-term approach as the most valuable information. However, we question why the transaction is not presented the same for all three approaches, especially when the TANs and RANs mature during the near-term. This would inform the user that near-term resources were available to pay the near-term maturing debt and not available for other spending. This would give a more accurate picture of resources available for spending other than near-term maturing debt.

Question 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? We believe financial resources “to be items that can be or are expected to be converted to cash.” We do not view prepaid items or inventory to be financial resources unless there is an expectation that they will produce cash in a future period (e.g., seek refund of prepaid insurance). Inventory for sale or resale has the ability to generate cash and would be a financial resource. Inventory consumed during the normal course of business would not be a financial resource. Generally, governments consume inventory rather than use it to generate cash.

Question 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 suggest that the description included in the heading of the illustrated financial statements specifically identify the time frame (e.g., the near-term time frame is within 90 days after the fiscal year end), rather than just stating “short-term view.”

Question 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? We believe a same-page reconciliation and the use of specific terminology will be effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements.

Question 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 support the existing format because it likely will create less confusion for readers due to the formats familiarity.
Question 3.2 - Should a statement of cash flows be required for governmental funds? Why?

Because we support the near-term approach, we do not believe a cash flow statement is necessary (i.e., near-term time frame is a cash equivalent time frame). However, if the current or long-term approach were to prevail, we believe a cash flow statement would be necessary.

Question 3.3 - What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds? As indicated above, the near-term approach we prefer would not require a cash flow statement. If either the short-term or long-term approaches were selected going forward, a cash flow statement might be necessary. An additional basic financial statement would require additional preparer and auditor costs to prepare and audit, respectively, even in subsequent years. The cash flow statement could provide readers with a sense of the governmental funds liquidity and insights into its ability to continue as a going concern when analyzing the trend data in statistical section.

Question 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? We believe the existing classifications are still the most appropriate.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit