March 29, 2017

Governmental Accounting Standards Board
491 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

RE: Project No. 3-251

The State of New Jersey has reviewed and commented on all questions we feel are relevant or are of interest to our operations. The comments pertain to the Chapter 2: Recognition Approaches for Governmental Fund Financial Statements, and Chapter 3: Other Governmental Fund Financial Statement Issues.

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?

Response: Yes. The governmental fund financial statements need to be on a modified accrual accounting and current financial resources focus. In New Jersey, the annual budget is prepared on a GAAP basis, therefore any change in GAAP reflects on the budget process. The New Jersey State constitution requires a balanced budget be submitted and adhered to. Adding liabilities that are not currently on a governmental basis would result in additional appropriations and/or require additional 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?

Response: Yes. In order to measure a government’s performance, the governmental basis and budgetary basis need to be comparable. Additionally, legislators are not necessarily accountants and therefore should not be required to reconcile between two basis (governmental vs budgetary).
March 29, 2017
Page 2

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?

Response: If required to choose one of the three recognized approaches, the near-term approach would be the most acceptable. The near-term approach would create an immediate problem for New Jersey since interest payable would have to be recorded as of June 30s. Currently, all debt service payments (principal and interest) are recorded when due and payable. In addition, there seems to be other “near-term” liabilities that would be required to be recorded that currently are not recorded in the governmental funds.

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?

Response: No comment.

2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. (See the discussion in paragraphs 38-30 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?

Response: No comment.

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?

Response: As discussed above, New Jersey would prefer not to change from the current approach. Any change to the GAAP basis would create a one-time negative effect on the State’s budgetary fund balance.

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?

Response: Yes.
March 29, 2017
Page 3

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?

Response: The existing format for the reasons stated above.

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

Response: No. It would seem redundant.

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

Response: Normal information/data gathering.

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?

Response: Yes

The State of New Jersey would like to thank the Governmental Accounting Standards Board for the Invitation to Comment.

Regards,

David Ridolfino
Acting Director

cc Michael Griffin
James Kelly
Jeffrey DeCicco