March 31, 2017

Director of Research and Technical Activities, Project No. -325I
Governmental Accounting Standards Board
director@gasb.org

Thank you for the opportunity to respond to the GASB’s Financial Reporting Model Improvements – Governmental Funds Project No. 3-25I. We are grateful for the Governmental Accounting Standards Board’s (the “Board”) diligence to continuously improve financial reporting for governmental entities.

As auditors we work closely with both the users and preparers of governmental financial statements. We recognize that the current model is not fully understood by some users or preparers for that matter. Some of the confusion is attributed to inconsistent application of certain modified accrual concepts. While each of the three proposed Recognition Approaches provides useful information, some create additional reporting issues and others create redundancy.

The near-term approach most closely resembles our current reporting model. This approach would allow for little to no change in the government-wide reporting model. In addition, this approach is the most effective in eliminating the inconsistent use of prepaid items and inventory. We find in practice that governmental entities misuse prepaid items in the special revenue funds. Furthermore, changing to this approach and to the Statement of Near-Term Financial Resource Flows- Current and Long-term will allow users to find a correlation between the fund financial statements and the government-wide financial statements. For instance, the Reconciliation between the Statement of Revenues, Expenditures, and Fund Balance and the Statement of Activities presents a figure for capital outlay that was de-expended at the government-wide level and recognized as capital assets. The users of the financial statements cannot obtain the capital outlay information from the face of the statement of revenues, expenditures, and fund balances because the expenditures are reported by functional category rather than by account type. Should the Board decide to use the Statement of Near-Term Financial Resource Flows- Current and Long-term, governments can identify capital outlay in the aggregate and clearly see the correlation on the reconciliation.

The short-term approach would highlight going concerns issues just by using the fund financial statements. Feedback received from oversight agencies indicates that this approach is the most useful to identify such issues. However, governmental entities will have to include more estimates in their fund financial statements than they have in the past as they have to identify those short-term assets and liabilities that are times difficult to obtain. This would include compensated absences, pension expense, and other long-term liabilities. In addition, the inconsistent application of prepaid items and inventories will continue under this approach. The reconciliation between the fund financial statements and government-wide statements will also continue to be a problem and will focus on the long-term items.
The Long-term approach would reduce, if not eliminate, the need for the government-wide financial statements. This would require the Board to revamp what has been established through Statement No. 34. In addition, the Budget to Actual Schedules for the General Fund, at a minimum, would require an extensive reconciliation to explain the differences between the “new” GAAP basis of accounting and the budgetary basis of accounting. Per the Government Finance Officers Association Best Practices/Advisories resource section, “the differences…should be written in a manner that is clearly understandable to those without expertise in either accounting or budgeting.”1 The reconciliation then becomes as ineffective as the reconciliations between the government-wide financial statements and the fund financial statements. The drawback to the Long-term Approach is that it seeks to apply long-term financial concepts to what are essentially short-term and highly disaggregated revenue streams. Applying long-term financial concepts to say, expenditure driven grant funded special revenue funds would create another level of financial reporting that would not serve the grantors, grantees or the communities that they serve. This could very likely lead to less disaggregation at the fund level reporting (externally) which would in turn provide the external users with less useful information about specific potentially major programs of a governmental entity.

Again, we greatly appreciate the Board’s desire to improve governmental entities’ financial reporting practices. The proposed changes to the governmental funds must be considered in conjunction with the current reporting model for the government-wide financial statements and required supplementary information.

Sincerely,

Celina Cereceres Miller, CPA

1 http://gfoa.org/basis-accounting-versus-budgetary-basis