The city is pleased to provide our comments on the proposed Financial Reporting Model Improvements for Governmental Funds. We responded to each of the questions as documented below.

Chapter 2: Recognition Approaches for Governmental Fund Financial Statements

Q 2.1 Do you believe that governmental fund financial statement 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?

Budgets are an important tool for local governments and are presented on a cash or modified-acrual basis; both bases are near-term. For the city, the budget is a legally adopted document. If a change is made to move governmental funds to longer-term approaches, additional work and/or reconciliation schedules would be necessary to present actuals on the same basis as budget. This approach could add confusion for unsophisticated readers and the interested citizens.

Fiscal accountability is integral to fulfilling our obligation to the citizens of our city.

Q 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?

Budgets carry the force of law and are the focus of the governmental financial statement consumers (citizens.) Comparisons to budget demonstrate legal compliance. Use of the near-term approach demonstrates that the resources were obtained and used in accordance with the entity’s legally adopted budget.

The comparison of the budget and actuals is relevant and important to the city’s citizens. This demonstrates the city’s accountability to its constituents by explicitly displaying how resources were spent compared to expectations (the budget.)

Q 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 more relevant?

The near term approach is the most relevant to assessing fiscal accountability. Citizens are the most important users of the city’s financial information. They understand a cash in/cash out methodology and governments have a duty to provide financial information in a manner that is understandable to them. The more complex the accounting and financial reporting methodology, the less understandable and useful it is to unsophisticated readers.
In addition, as has been stated above, it would most closely align with the budget and demonstrate the ability for governments to meet their obligations on a day to day basis.

The near-term approach is also the method that is nearest to cash basis, eliminating the need for a cash flow statement. Elimination of this statement reduces preparation time and costs.

Q 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?

The focus of many readers is the Statement of Resources Flows. Presenting TANS and RANS on this statement emphasizes the cash borrowing needs of the government. The near-term approach also negates the need for a cash flow statement.

Q 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 can be or are expected to be converted to cash within a short period of time. Inventory and prepaid items are not a financial resource; financial resources were used (consumed) to obtain these items. The majority of a local government’s inventory is not purchased to be resold, but to be used in operations. Prepayments utilize current resources (cash) for expenses related to future periods. When making the prepayment, the intent is to use the purchased service over the contract term; therefore, a refund is not anticipated in the normal course of business. Neither of these items would be available to pay the outstanding obligations and are not available to become cash for a future period.

Q 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?

Overall, the financial elements included with the reporting approach must be consistent with the stated intention; i.e. if the near-term approach is used, then remove all elements not meeting the definition of near-term.

The near-term approach is the most valuable for the city. This is most comparable to current financial reporting and uses the least amount of estimation and judgment. The approach aligns with our budgeting and eliminates the need for a cash flow statement. Consideration should be made for the
reporting of the fair market value of investments and the timing of the maturity of investments under this approach.

The long-term approach creates confusion between it and the full accrual basis; i.e. no capital asset recognition nor capital related debt. This introduces two definitions of what is considered to be long-term. This approach also changes the reconciliation statements. This approach introduces new inconsistencies related to revenue recognition, specifically levy recognition. Creating additional burden on staff in the year of implementation.

Q 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?

Based on the presentation included in the Appendices, yes, it is effective in communicating a difference exists between the statements. The city suggests adding the requirement of a footnote to accompany the condensed information to further explain/clarify for the readers.

Chapter 3: Other Governmental Fund Financial Statement Issues

Q 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 near-term (existing) format would be the most beneficial for our city. This would be the most comparable to the current statements and easiest (i.e. least amount of resources) to implement. This approach clarifies the methodology and intent of using current financial resources eliminating some of the items which don’t meet the definition; i.e. prepayments.

One concern of splitting up the current and long term activity format is splitting some of the costs into those buckets would require additional resources to track and classify current versus long-term. This would introduce more judgment and estimates. For example, a transfer in/out is not generally separated for this concept and would require tracking of the transfer in a new way.

Separation of current and long-term information is available in the government-wide statements clouding the reasons for requiring separate sets of financials- fund versus government-wide.

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

No. A cash flow statement should not be required for governmental funds. As stated in the responses above, the near-term approach is preferential to the city, which mitigates the need to prepare a cash flow statement. A cash flow statement does not seem reasonable for a special revenue funds or debt service funds. The flow of cash doesn’t tell the story of the funds’ activity. Given the complexity of the
activity that occurs in the general fund, it would be inefficient to spend the staff resources creating a cash flow statement.

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

See above response to question 3.2 above. Overall, the time required to prepare a cash flow statement for each governmental fund would be extreme in relation to the benefits. Adding cash flow statements for governmental funds also significantly increases the length of the financial reports, which are already voluminous documents. Any added perceived value might be negated by reader fatigue from consuming more financial statements.

Q 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?

Statement 9 includes a classification for capital and related financing activity. This introduces a focus on capital assets not formerly attached to governmental fund reporting. This doesn’t seem reasonable for the flow of information.

Additional Comments

One of the stated reasons for this proposed reporting model change includes accounting for special transactions, specifically the accounting for derivative instruments and service concession arrangements. Our city does not currently engage in these transactions either by policy or practice. A change in financial reporting model forces all governments to change when GASB could specifically address the transactions in a way which does not affect all reporting entities.