Thank you for the opportunity to comment on the Financial Reporting Model - Governmental Funds. I have been involved with the audits of government financial reports since 1974. Over that time there has been a great deal of change through the development of standards for governmental accounting and financial reporting. I agree with the premise that it is time for a review and reflection on the standards that have developed and are in use today. Several underlying foundations identified in the Document are the backbone to my comments. These include the inescapable fact that one format of financial statements cannot satisfy the needs of the wide variety of users. Another is that governments needs a practical process of accounting and financial reporting that is in tune with needs to process and record transactions and demonstrate compliance. Therefore, I continue to support the idea of government-wide financial statements, which can be reconciled to fund financial statements. However, I also suggest there are opportunities to draw on the use of Management Discussion and Analysis (MD&A), Notes for Financial Statements and Required Supplemental Information to report and disclosure valuable information to enhance understanding. My response is divided into the answers to the questions posed by the Document and then my offering of additional ideas to be considered at this preliminary stage of analysis and evaluation. My intent is to provoke thought, as well as focus on positions for the issues at hand.

Answers to Questions on Recognition Approaches for Governmental Financial Reporting

2.1 I do believe that the fund financial statements should reflect a shorter period of time than the government-wide financial statements, because the flow of resources is a fundamental aspect of everyday operations and management. If recognition and measurement of everyday transactions were done on a full accrual basis it would become more probable that revenues that are not really available could be mistaken as a resource. It is true that following the deferred inflows and outflows guidance should overcome this challenge, but as a practical matter I do not see governments able to install that added degree of accounting and determination on an everyday basis.

2.2 I do believe that comparison to budget is a vital part of financial reporting. It is necessary for informing and instilling confidence for constituents and for regulators. However, it has been my past and current experience that the form of budget data often does not align with the format of GASB based financial reporting. These differences can be caused by the basis of accounting, more often, by specified terms coming from the jurisdiction itself or imposed by higher authority, or even law. Therefore, my suggestion would be to have the comparison included as Required Supplemental Information. Also, that disclosure in the footnotes be expanded to discuss the source of the budget format (not just that it is a budgetary basis) and point to its existence in the MD&A.
2.3 I support the use of Near-Term recognition as both the most practical in everyday application, but also as it remains the closest to a flow of resources measurement. Governmental funds are engaged in a constant flow of transactions. Both the recording and measurement is practical at a cash flow level as this is what is managed. It is also reflected in most budgeting from the perspective of what is available and how is it used. Governments that a resourced constrained need to know if they are catching up or falling behind on liabilities, but that determination can be performed periodically, even annually through the government-wide full accrual measurement, without burdening day to day and month to month activity. Further budget decisions are made that allocate resources as available, also making comparison to budget more practical and realistic.

2.4 Consistent with my other comments, I believe there is substantial benefit for demonstrating the current period flow of resources and uses. I support the near-term reporting of those flows. However, since there is an overarching need to compare the long-term consequences or status at the reporting date over the life of the Tax-Anticipation instruments, this would be where I would require a Note disclosure of beginning, current period and life to date flows against anticipated inflows and outflows, to demonstrate the degree of execution of the overall transaction. Presumably this would also provide disclosure for elements in the government-wide financial statements.

2.5 My approach to what is a financial resource would remain true to a flow of resources definition. If the asset can be converted to cash or consumed in lieu of further cash expenditures in the near term it would be a resource. However, if the asset could not be readily converted it would not be a resource. Our current situation involves considerable outlay of cash for inventory for resale and we must pay for our insurance coverage in advance. As we progress through transaction the inventory is sold or the insurance expires and we recognize the affects to get intraperiod equity. If the determining factors for this definition revolve around flow and near term recognition, it can create clear and distinct determinations. The short and long term model puts added burden on the determination of impairment and timing of conversion, which may not be clear cut. However, as a part of the government-wide financial statements, this is a reasonable expectation and determination with annual reporting.

2.6 While the Measurable and Available concept is simply an accounting convention, it is my observation is has served governments large and small very well, because it correlates the closest to the monitoring of flow of resources and the everyday management of finances. The use of a literal interpretation of the 60-day rule perhaps need to be allowed to become flexible, (perhaps a range of time that should be disclosed), but if it became the standard it would be consistent and practical for the fund level recognition, measurement and reporting of the Near-Term Approach. I would then apply that time range as the required conversion period for inventory or prepaid items considering “Available” as the overarching determining factor. (My concern for either of the other recognition methods would be that entities could fall into the trap of spending ahead of true availability, because the window is longer and thus not always true to the possibility of current events shaping everyday choices and decisions. I could especially see expenditures made with the best intent and but then short on resources when a shared tax revenue is not received exactly as anticipated. I remember all too well the times governments have spent in anticipation
of future revenues, we need recognition principles that guard against such behavior by making it
detectible if it is occurring.)

2.7 It is my observation that the same page reconciliation is well intended, but fails to
recognize that items themselves may need more explanation than the page will allow. I support
strongly having categories or classes of reconciling items types to facilitate a same page
reconciliation. However, I would them add that a Note to Financial Statement could then be
encouraged to expand disclosure of detail of non-routine or major elements if they could not
readily be placed on the page.

Answers to Questions on Other Governmental Fund Financial Statement Issues

3.1 I favor staying with the existing format for flows of resources. Consistent with my other
responses, the practical aspect of dealing with flow availability in the near term eliminates the
needs for extending measures and reporting to a current and long term model.

3.2 Since I favor the current model and near term focus, the need for a cash flow statement is
moot. I suggest that it could offer some benefit by classifying the type of flows between
operating, investing and capital activities, but generally these are apparent from the proper use of
fund types.

3.3 The practical difficulties of presenting cash flow statement for Governmental Funds
would revolve around classification of flows versus their presentation in fund and functional
financial statement. Preparing them might not be too difficult if the proper chart of accounts and
groupings can be established. If this order is not present, converting data from a revenue and
expenditure format to the four cash flow classification could be a larger practical problem. My
bigger concern is for users, would they be able to distinguish the benefits of using a revenue and
expenditure style statement versus one on cash flows? Would a user become fixated on cash
flow and not look at the larger picture of changes in Net Assets? I see more downside than
upside to having a cash flow statement for Governmental Funds.

3.4 If there must be a cash flow statement presented, it should include the four classifications.
Anything less dilutes it usefulness as it almost becomes redundant to a statement of revenues and
expenditures.

Thank you for considering my perspective and comments. I offer other ideas with the same
objective.

I firmly believe the standards need to work more to have MD&A be much more about why
allocations or priorities occur, than continue to allow entities to make year on year comparisons
without anything more than stating the obvious. It serves no purpose. Many governments make
allocations of resources and priorities that vary year to year based on circumstance and what is
possible. It takes much more than year on year to really indicate a trend. I further suggest the
standards add the presentation of 10-year history of changes in Net Position based on the
Government-wide Financial Statements. This will help inform on the progress against existing
debt, unfunded past service costs, the reinvestment in capital assets or simply the maintenance of
healthy balances to be sustainable. The near-term reporting at the fund level does more than enough to explain a single year’s activity. A multi-year presentation on the full accrual measures which present economic status is the best way to judge a trend and sustainability.

I’d also like to advocate for more use of Note to Financial Statements to provide important details or insights into major items. I feel the idea of segment disclosure maybe a format for such presentations. Often things can look similar year to year, but there can be significant underlying reasons that get lost in highly aggregated information. This my suggestion for more reporting.

I hope you use these ideas for your evaluation. I appreciate the chance to give back to a profession that I have enjoyed for over 40 years. Do not hesitate to follow up with me if you want more input.

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