Project No. 3-251

RE: Proposed Statement of the Governmental Accounting Standards Board, *Financial Reporting Model Improvements – Governmental Funds*

To Director of Research and Technical Activities:

Thank you for allowing us to participate and comment on the Governmental Accounting Standards Board project No 3-251, Financial Reporting Model Improvements – Governmental Funds. We are sharing our opinion strictly as a user of the financial statements and not as a preparer. The Texas Education Agency oversees 1,023 independent school districts, 180 charter schools, and 20 Regional Education Service Centers across the state totaling over $45,166,645,547 in revenue, $44,270,817,056 in expenditures, and $122,572,650,707 in assets. The sizes and diversity of the school districts and charter schools vary greatly and so do the competency of the finance teams at each of these entities. In addition to reviewing all of the annual financial reports, we issue a financial accountability rating based on certain information in the audited financial statements for each district and charter school. The purpose of the rating system is to provide transparency to the taxpayers on how school districts use the financial resources they receive, to provide a system in which we can measure the success of the financial management of each district, and to provide a measurement for the financial management of each district.

With that in mind, below are our responses to the questions raised in the proposed statement.

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?

The governmental fund financial statements should continue to present information that focuses on financial resources because the financial resources presentation aligns with the operating cycle of the budget which is the main driver of governmental sources and uses of funds.

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?

The governmental fund financial statements should continue to allow for a budgetary comparison because the budget is determined by the elected board and it reflects the board’s priorities. The board determines its plan for using the public funds and communicates its plan to the taxpayers before the fiscal year begins. Not having a comparison of budgeted data with actual financial data would allow the priorities of the board to become disaggregated with the operating results of the entity causing the board and the budget to lose control over the actual sources and uses of funds. Also, the comparison provides a schedule to present the districts’ compliance with applicable laws and rules and provides transparency to the taxpayers.
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?

As a user of the financial statements who is constantly trying to assess the financial health of each district and charter school, we think a blend of short-term and long-term would be most beneficial to our relationship with the financial statements. However, as expressed in 2.1 and 2.2, maintaining a relationship between the budget and actual operations is critically important. Also, a concern with reporting in the long-term approach is it is very similar to the government-wide financial statements, with the only exception being debt related to capital assets and capital assets. This then begs the questions of why have one or the other. We also do not like the inclusion of net pension liabilities in both the short-term and long-term approaches because school districts and their boards deem this to not be a useful number to have when accessing the financial operations of the district, and the board does control the liability or its outcome. Additionally, analyzing the district’s financial resource management and maximizing its resources to get the best results for its students are the most important factors for us. Therefore, an approach that presents information that has a relationship with the budget along with the flow of resources is most advantageous.

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?

A reflection of all debt activity helps us determine the financial situation of the district. Therefore, an inclusion of both current activity and the outstanding balance allows us to assess the district’s financial practices. So as long as the information is included in the financial statements, it is most advantageous to us and the taxpayers.

2.5 Views vary on the definition of financial resources – a concept integral to all three recognition approaches. 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?

Both prepaid items and inventory are resources that are meaningful to the user of the financial statements. Resources have been expended to obtain prepaid and inventory items and accounting for them should reflect that.

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 most valuable? How would those changes make the information more valuable?
See response to 2.3.

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 think providing a brief purpose for each of the statements and defining the financial and economic resources would be a good start to communicating an understanding of the reconciliation and the differences between the statements. Obviously, communicating the difference and the purpose has been a shortcoming in the past, but to explain why the different approaches is beneficial and what they each present could be useful.

3.1 Which format for the governmental funds resources 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?

While we appreciate the board’s ideas about changing the format to reflect a current and long-term activity format, we are concerned that most folks outside of the accounting world would find the statement confusing much like the Government-Wide Statement of Activities currently in use.

For our purposes, differentiating between current and long-term activities would be useful when assessing a school district’s ability to continue to operate and how it is managing its financial resources. Using this statement would also create additional complications when comparing the budgeted information to the actual results of operations.

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

A statement of cash flows would be beneficial from a perspective of reviewing financial resource management. If one is required, we believe keeping it consistent with the cash flow required for proprietary funds would make the transition easier because preparers have experience preparing the statement.

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

Similar to the change in the proposed statement of changes in revenues, expenditures, and fund balance; we believe educating users on why having a cash flow statement is beneficial and the purpose of the statement would be most important.
3.4 Are the four classifications for the statement of cash flows from Statement 9 the most appropriate for governmental funds? If not, what classifications would be most appropriate?

We believe the four classifications from a user perspective provide important information especially when deciphering between debt related to operations and debt related to capital acquisition. However, as stated in 3.2, we believe keeping the format like the cash flow for proprietary funds would make the transition easier.

Should you have any questions please contact me at david.marx@tea.texas.gov.

Sincerely,

David Marx, CPA