January 24, 2019

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
461 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Preliminary Views Document: *Financial Reporting Model Improvements*
    (Project No. 3-25PV)

Dear David:

On behalf of the New York Government Finance Officers’ Association, Inc. (NYGFOA), the Accounting, Auditing, and Financial Reporting Committee, comprised of members with governmental accounting and auditing backgrounds in state and local governments as well as members in academia and public accounting, has reviewed the Preliminary Views (PV) document on *Financial Reporting Model Improvements*.

We wish to express our appreciation of, and agreement with, the Board’s preliminary view that the short-term financial resources measurement focus should be applied to financial statements of governmental funds. As stated in our comment letter dated March 15, 2017 (Invitation to Comment: *Financial Reporting Model Improvements—Governmental Funds*) the Association supports a reporting model for governmental fund financial statements which enhances readers’ ability to assess budgetary compliance, as we believe this to be an essential function of the governing body of governmental entities. Of the three approaches presented in the ITC, the Association believes the short-term financial resources measurement focus is superior to the near-term and long-term approaches in achieving this purpose.

The short-term financial resources measurement focus also addresses a concern regarding the potential to manipulate fund balance through accelerating or delaying the issue date of tax or revenue anticipation notes, overstating fund balance or complying with State statute or local policies, inherent in the near-term approach.
NYGFOA also appreciates the Board’s consideration of comments from responders regarding the additional burden and potential impact to the timeliness of financial reporting had a governmental funds statement of cash flows been required. The Association’s 2017 ITC comment letter expressed similar concerns over the impact this additional burden would have had on smaller governments.

Furthermore, the Association concurs with the Board’s decision not to require a government-wide statement of cash flows. Requiring that a statement of cash flows be included in financial statements, beyond that already provided by the short-term financial resources measurement focus and the required budgetary comparison information, would not justify the complexity, additional costs, and potential challenges to current governmental systems.

Regarding specific terminology to be used in the governmental fund financial statements, the Association concurs that the use of “short-term” in financial statement titles more effectively communicates the differences between governmental fund and government-wide financial statements. Also, the Association concurs with the use of an additional explanatory statement on the top of each financial statement further describing these differences. However, the Association believes adding the words “short-term” to each of the financial statement elements adds additional language which is cumbersome and redundant.

The Association further believes that deviating from familiar terms, such as revenues and expenditures, will confuse readers. It has been our members’ experience that governing boards and the general public already struggle to understand the differences between governmental and private sector financial reporting. Further divergence from familiar terms will make comprehension much more difficult.

This response has been presented to the NYGFOA Board of Governors and approved for submission to GASB. Please direct any questions to Fred Shellard, Director of Professional Services at 518-465-1512, who can direct inquiries to the appropriate NYGFOA representative.

Sincerely,

John A. Savash II, CPA
Co-Chairs, NYGFOA Accounting, Auditing and Financial Reporting Committee

Christopher Reino, CPA

cc: Christina Cooke Withers, Executive Director of Finance and Taxation, County of Suffolk
    President

    Maura K. Ryan, Executive Director

Approved by the NYGFOA Accounting, Auditing and Financial Reporting Committee 1/16/2019
Approved by the NYGFOA Board of Governors 1/18/2019
March 15, 2017

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
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RE: Invitation to Comment: Financial Reporting Model Improvements—Governmental Funds
(Project No. 3-25I)

Dear David:

On behalf of the New York State Government Finance Officers’ Association, Inc. (NYS GFOA), the Accounting, Auditing and Financial Reporting Committee, comprised of members with governmental accounting and auditing backgrounds in state and local governments as well as members in academia and public accounting, has reviewed the Invitation to Comment (ITC) document on Financial Reporting Model Improvements—Governmental Funds.

Generally, we support the current financial reporting model with enhancements, but also understand the necessity to present the near-cash basis at the individual fund level.

The following are comments and observations on the questions posed in the ITC.

Item 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?

We believe that the governmental fund financial statements should continue to present information that reflects a shorter time perspective than the government-wide financial statements because the shorter time perspective most closely mirrors a government’s budgetary information. The existing model allows for both a current resources view that is important to management and the underlying taxpayers as well as a long-term view as documented in the Statements of Net Position and Activities.
As indicated under Item 2.2 (see below), we believe budgetary information to be an important aspect of a government’s financial reporting. Therefore, we believe the fund financial statements are more relevant if they enhance readers’ ability to assess budgetary information. Also, government boards rely on their accounting professionals to interpret the government-wide financial statements to keep them informed of the long-term effects of their actions such as borrowing, other post-employment benefits (OPEB), etc.

**Item 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 budgetary process is an essential function of the governing body of governmental entities and is the expression of the governing body’s decisions about the type and extent of services a government will provide and how and by whom those services will be funded (the burden on the taxpayers). The importance of this function is demonstrated by the enactment of laws by states across the country to govern the budgetary processes and controls of state and local governments. Given the importance of this function, the usefulness of financial statements would be diminished if they did not present information allowing stakeholders to assess how governments modify their budgets, how they perform relative to their budgets, and whether they have achieved budgetary compliance.

In addition, certain restrictions that are measured under the current method such as the unassigned fund balance cap of 4% of the General Fund budget for public schools in New York State rely on the current methodology.

**Item 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?**

The short-term approach most closely mimics the current approach. For governmental fund financial statements, the short-term approach is most relevant for users to compare the government’s budget to actual results (did the government meet the goals that they set forth when creating and approving the budget?)

To determine if the government is being fiscally responsible in planning for the future, we look to the government-wide financial statements, Management’s Discussion and Analysis (MD&A) and the Notes to the Financial Statements to assess the changes in borrowing, OPEB funding, and other long-term, ongoing activities that may affect future cash flow and economic resources.

**Item 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 discussion in Chapter 3). Which approach to the reporting of these notes provides the most valuable information? Why?**

In New York, short-term borrowings such as tax anticipation notes (TANs) and revenue anticipation notes (RANs) are used to relieve short-term cash flow issues and may or may not be anticipated during the budget development process. Therefore, funding to make payments on those notes would not necessarily be budgeted. Under the near-term approach, this would result in an unfavorable budget variance or the need to modify the budget in order to avoid an over expenditure.
As noted in Chapter 2, Paragraph 19.b, under the near-term approach, a government’s decision to issue tax or revenue anticipation notes prior to year-end would have the effect of overstating fund balance. By accelerating or delaying the issue date of tax or revenue anticipation notes, a government could manipulate fund balance to comply with State statute or local government policies.

Also, because TANs and RANs are issued in anticipation of receiving revenues by definition, and are paid back with the proceeds of those revenues, they do not provide revenues upon receipt and are not expenditures upon payment. Therefore, reporting them as liabilities as in the short-term and long-term approaches are consistent with their definition.

**Item 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?

We consider financial resources to be items that can be or are expected to be converted to cash or are consumable in lieu of financial resources. We also consider prepaid items to be financial resources because the cash outflow already occurred (it was a use of a financial resource when it was incurred). Likewise, we consider inventory to be a financial resource for the same reason.

**Item 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?

Referring back to Item 2.5, focus on financial resources, we believe that regardless of which recognition approach is eventually deemed to be the standard, there must be a universally agreed upon definition of financial resources.

**Item 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 the 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?

The answer depends upon the method used. There would be very little reconciliation if the long-term method was used and a significant amount of reconciling items where the near-term methodology is utilized.

We also recommend a footnote or other type of reference to specifically define the time period represented by “near-term” (is it 60 days, or 90 days, etc.) “short-term” is universally recognized as being a fiscal year, while “long-term” is universally recognized as being longer than a fiscal year.

**Item 3.1:** Which format for the governmental funds resource flows statement-existing format for current and long-term activity format provides the most valuable information about governmental funds? Why do you consider the information to be more valuable?

We find no compelling reason to change the governmental funds resource flows statement from the existing format.
Item 3.2: Should a statement of cash flows be required for governmental funds? Why?

If the near-term or short-term methods are used, the cash flow statement would provide minimal additional information. Should the long-term approach be utilized, a cash flow statement would provide additional insight to the reader.

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

Smaller governments may lack the ability and understanding to prepare cash flow statements. Additionally, this would increase the scope of any audits and cause an increase in audit-related expenditures that would disproportionately affect smaller governments.

It creates an additional burden on small governments for reporting and audit; however, if the government is small enough that financial resources are limited, then the ability to prepare a cash flow statement may give the small government essential information to help manage the flow of financial resources.

For external reporting purposes we do not believe presenting a statement of cash flows would have any benefit.

Item 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?

We believe the four classifications for the statement of cash flows from Statement 9 are adequate and appropriate for the governmental funds.

Conclusion

This response has been presented to the NYS GFOA Board of Governors and approved for submission to GASB. Please direct any questions to Fred Shellard, Director of Professional Services at 518-465-1512, who can answer or direct questions to the appropriate NYS GFOA representative.

Sincerely,

John A. Savash II, CPA
Christopher Reino, CPA

Co-Chairs, NYS GFOA Accounting, Auditing and Financial Reporting Committee

Dawn Donovan, Comptroller, Town of Eastchester
President, NYS GFOA

Maura K. Ryan, Executive Director
NYS GFOA

Approved by the NYS GFOA Accounting, Auditing and Financial Reporting Committee 03/03/2017
Approved by the NYS GFOA Board of Governors 03/15/2017