

March 31, 2017

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: December 7, 2016 Exposure Draft of an Invitation to Comment on Financial Reporting Model Improvements—Governmental Funds (Project No. 3-25I)

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Invitation to Comment (ITC) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the objective of this ITC, which is to obtain stakeholder feedback on potential improvements to the existing financial reporting model for governmental funds. One of the major proposed potential improvements would be to explore three different reporting models for the fund financial statements, and GASB has asked constituents to provide feedback as to which reporting model captures the most meaningful representation of the government's short-term focus.

There was much discussion among TIC members as to whether the existing financial reporting model needed to be changed. While TIC members believed there were merits to

keeping the existing reporting model, they were open to considering the additional models as laid out in the ITC.

TIC is providing detailed feedback on each of GASB's questions in the specific comments section below.

SPECIFIC COMMENTS

Question 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?*

Yes, TIC believes that the governmental fund financial statements should be a focus of presentation, and should continue to focus on information that reflects a shorter time perspective. The current model addresses the needs of the vast variety of users of the financial statements. It allows the users to focus on either the longer term or shorter term perspective. The shorter term view is integral to the users of the financial statements to access and provide transparency related to current year performance against certain formally approved measures, like the annual budget. TIC believes that including shorter time perspective helps users evaluate the government's effectiveness in day to day operations.

Question 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?*

Yes. While we understand that the GASB does not have the right to issue budgetary accounting guidance (rather, budgetary accounting is driven by federal, state, and local laws), many governments use current accounting guidance as the basis for budgetary accounting because the modified accrual basis of accounting helps capture the available resources and expenditures of the government required to be managed. To this point, TIC agrees with the statement made in paragraph 12 of chapter 1 of the ITC.

Question 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?*

TIC had some lengthy discussion about this issue and which approach would be the most preferable. The majority of TIC members believe the near-term approach best captures the

information that is most relevant to the government if there is a change to be made from current practice. The majority of TIC members believe the near-term approach more closely resembles the manner in which governments currently manage and account for their resources

In addition, some TIC members, as well as their governmental clients, noted they did not think the conceptual basis should change and they are happy with the current framework. There seem to be concerns that there are issues with all three of the additional approaches proposed in the ED, and perhaps GASB should consider going with the current approach and simply adding additional guidance where needed. Perhaps this could be done through additional questions and answers, making technical corrections to existing guidance, or by the issuance of implementation guides.

Question 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?*

TIC has expressed a preference for the near-term approach. TIC does recognize that treatment of debt would be one of the challenges in the near-term approach, as pointed out in chapter 2, paragraph 19 of the ITC. Since tax anticipation notes currently are being reflected in the short-term debt section of the notes to the financial statements and readers are directed to read the notes along with the financial statements, this issue is addressed.

Question 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?*

TIC believes the most useful definition of a financial resource is items that can become converted to cash or other items that can be linked to avoiding a direct and specific cost that would otherwise use future resources. For example, TIC believes that prepaid items and inventory should be included as assets. When a government exchanges resources for a prepaid item or inventory, they are accelerating the use of cash related to costs of a near-

term future period. It is common for governments to prepay for items or keep a stock of inventory items that apply to the next reporting period. This typically is a management decision on the use and need of resources to be available to provide services. TIC believes that going to a more pure cash flow point of view on prepaid items and inventory could distort the period in which those costs really belong. Therefore, TIC would consider items like prepaid assets and inventory to be financial resources.

Question 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?*

As noted in preceding question 2.5, TIC believes adding prepaid items and inventory to the balance sheet would enhance the reporting. Reflecting prepaid items and inventory on the balance sheet would provide a more consistent application of reflecting costs in the period to which they apply.

Question 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?*

TIC liked the concept of short concise wording, but would slightly change the descriptions. For example, GASB has a caption in the ITC currently titled “Revenues that do not provide near term resources.” TIC believes it would read better if that particular caption indicated “Revenues earned by the government, but not received in sufficient time to provide near term resources,” or something to that effect that makes it clear the earning or incurred process is complete, and it’s simply a matter of the timing of the receipt or use of resources. But again, TIC does prefer the use of the shorter descriptions wherever possible.

Question 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?*

TIC members struggled to evaluate the pros and cons of each of the conceptual examples laid out in the ED in detail and, therefore, did not express a strong preference for one format over the other.

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

As TIC prefers the near-term approach, a cash flow statement would not be required for governmental funds using that model. However, TIC believes that, if the GASB decides to go with either the short-term or long-term approach, requiring a statement of cash flows might be preferable, as under those models, certain information about the cash flows of the entity would not be readily available in the other financial statements.

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

TIC believes that with the long-term approach, in particular, there are more deferred inflows and outflows which might make it confusing as to where to present those items on the statement of cash flows. Since the near-term approach closely resembles cash flows, TIC does not believe this statement would be necessary when applying that approach as noted in preceding question 3.2.

Question 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?*

TIC believes that the current four classifications work well. TIC also agrees that, GASB may want to consider being consistent with proprietary fund treatment, where possible, in order to avoid confusion. That said, there will need to be clarity on what constitutes operation revenue for a governmental fund, such as tax revenue.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees