

March 24, 2017

Director of Research and Technical Activities
Project No. 3-251

director@gasb.org

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

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

Listed below are the questions posed in the above-referenced Exposure Draft and the response presented by the PSC:

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?

Governmental fund financial reporting should match the same time period the budget(s) are being prepared for and presented to the public. This should be done in this time period so the electorate can hold the elected officials financially accountable.

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?

Our answer to this question is yes, for the same reasons noted in the answer to question no. 2.1.

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?

A combination of a near-term and short-term approach would provide the most relevant information for assessing fiscal accountability. Because no two governments are exactly alike, it would need to be more general than specific, but should include information that facilitates the budgetary comparison necessary as referred to in our answer to questions 2.1 and 2.2.

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?

For fiscal responsibility, borrowings and repayments should be reflected on the cash flow statement and if there is a balance at the end of a period, it should be reflected as a liability on the balance sheet.

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?

As noted in the answer to question 2.3, the definition that provides the most valuable information as it relates to financial resources is tied directly to how the entity budgets. If the entity budgets in such a way that prepaid items such as maintenance contracts and insurance, and inventory items such as fuel, are utilized in future periods, then those items should be included as financial resources.

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 our response to question 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?

While this approach appears to be admirable in the vacuum of academics, in practice this application would be horrific at best. Most of the governmental fund financial statements that would require reconciliation to the government-wide information already fill opposing page presentations to the point of needing magnification, if not fold-outs. The most effective way of communicating those differences would be additional schedules or separate statements, if not narratives.

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?

One of our concerns regarding these formats was the discussion of long-term activities on a statement that is meant to be on a current or short-term basis. This format could easily cause confusion on the part of board members or members of councils if they fail to understand the rationale for labeling items as long-term on this statement.

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

A statement of cash flows tends to enhance the clarity of financial statements. Including a statement of cash flows provides a clearer picture of where cash is generated and the activity responsible for its generation. However, there is the potential for confusion and problems with interpretation. For example, there are items that should be included as operating, such as taxes and intergovernmental items that are meant to be operating in nature. Additional items could include intergovernmental revenues and operating grants.

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

The items referenced in our answer to question 3.2 might pose some difficulties. We strongly encourage a clear definition of what constitutes “operating” items in a statement of cash flows. Also, some expanded guidance in the preparation of the statement should be provided. Such information would be of great assistance to smaller governmental entities.

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?

The classifications from Statement 9 appear to be appropriate. However, we suggest expanding the definition of the items under each category. Additionally, we would like to see items classified as operating rather than including items classified as non-capital financing. We further believe the categories should include the following:

Operating: All activities that are the result of operations of the government.

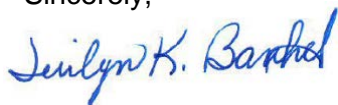
Financing – Non Capital: All activities that are financing in nature and affect liabilities that do not include capital acquisition.

Financing – Capital: All activities that are financing in nature and affect liabilities for capital acquisition.

Investing: All activities that are investing in nature and affect the acquisition or disposition of any fixed asset.

We appreciate the opportunity to participate in the standard-setting process.

Sincerely,



Jerilyn K. Barthel, CPA
Chair, Professional Standards Committee