



# Association of Local Government Auditors

March 31, 2017

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Mr. David R. Bean

Director of Research and Technical Activities  
Government Accounting Standards Board (GASB)

Project No. 3-25I

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Re: Invitation to Comment on major issues related to Financial Reporting Model  
Improvements-Governmental Funds

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to GASB's Invitation to Comment on major issues related to Financial Reporting Model Improvements- Governmental Funds. ALGA represents more than 340 audit organizations and over 2,200 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the Invitation to Comment in its entirety. We noted the GASB identified improving utility and understandability as key considerations in developing potential improvements to governmental fund financial reporting. We agree it's essential to address these topics to widen the use of governmental financial statements by the general public.

During the past decade most governments experienced increased operating costs and stagnant or declining financial resources. This resulted in significant funding problems even as demand for services continued to increase. The challenges associated with meeting those needs led some governments to focus too much on immediate results. Consequently we believe governmental financial reporting standards should not be modified in a way that leads those charged with governance, or governmental financial managers, to focus even more on near-term finances and operations.

The ideal financial reporting framework should encourage governmental financial managers and those charged with governance to consider the long-term viability of their governments. However, it should also generate sufficient information to enable evaluation of liquidity, current fiscal health and compliance with budgetary requirements. This is why we recommend the GASB pursue the Working Capital (short-term) approach.

## Questions and Answers

- 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. We believe governmental fund financial statements should continue to present information which reflects a shorter time perspective than the information presented in the government-wide financial statements and focus on financial resources. Governmental financial statement users need to be able to assess a government's near-term ability to continue to provide services and liquidate its obligations in a timely fashion. The shorter time perspective also maintains a better relationship with the budget.*

- 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. The budget is the primary tool for operational decision making. In addition, it's important for governmental financial statement users to be able to assess whether resources were used for their intended (authorized) purposes.*

- 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?

*We believe the working capital / short-term recognition approach provides the most relevant information for assessing fiscal accountability of governments. We agree that the use of the short-term approach would assist financial statement users in assessing the ability of governments to continue to meet service needs and liquidate their obligations. It also provides information to determine whether governments are falling behind or keeping pace in funding short-term obligations and whether governments have resources available to fund future services. The presentation of governmental funds financial statements using the short-term recognition approach would best accomplish the purposes intended to be served by the presentation of two distinct sets of governmental financial statements.*

*While the near-term approach would be ideal for budget-to-actual comparisons, financial statement users would not be provided enough information to assess liquidity. Liquidity is a key indicator of a government's ability to meet financial and service obligations in the present and in the future. Further, some financial statement users already believe the current governmental funds financial statements are an incomplete financial presentation. Use of the near-term recognition approach would not improve this perception. In our view, a modification of governmental accounting and reporting standards that would lead those charged with governance and governmental financial managers to have an even shorter term focus would not be in the best interest of governments or citizens.*

*We believe the use of the long-term recognition approach for governmental funds financial statements would be inappropriate. The measurement focus appears to be too wide, limiting the ability of financial statement users to assess liquidity. Governmental funds financial statements prepared using the long-term recognition approach would closely resemble the government-wide financial statements. Based on these factors, we believe that governmental fund financial statements prepared using the short-term recognition approach would be more useful to financial statement users.*

- 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?

*We believe the outstanding balances of these notes should be reported as liabilities on the balance sheet, and borrowings on and repayments of these notes should be reported in the statement of cash flows. As indicated earlier, we do not believe the near-term recognition approach provides financial statements users with enough information about liquidity.*

- 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 view financial resources to be items that can be or are expected to be converted to cash or are consumable in lieu of financial resources. Accordingly, we consider both prepaids and inventories to be financial resources. Inventories held for sale can be converted to cash, while prepaids and other inventories can be consumed by governments in lieu of the consumption of other financial resources. We believe omitting prepaids and inventories from governmental funds balance sheets would misrepresent financial position.*

- 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?

*We have no comments to offer at this time.*

- 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 believe the same-page reconciliation and specific terminology would be effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements. However, some of the reconciling items (i.e. difference between depreciation in the statement of activities and capital outlay outflows above) would likely be difficult for inexperienced financial statement users to understand. Other than attempting to promote the use of more user-friendly financial statement captions, the GASB Board could consider requiring the inclusion of a reference on the face of the governmental funds financial statements to the summary of significant accounting policies where the measurement focus of both the governmental funds and government-wide financial statements are described.*

- 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?

*We believe the current and long-term activity governmental funds resource flows statement format provides the most valuable information about governmental funds. If that format were used, it would be easier for inexperienced financial statement users to understand how government resources were used for both short-term and long-term activities during the reporting period. However, while the*

*differences between the existing format and the current and long-term activity format for the short-term recognition approach (which we have recommended) are subtle, we believe the use of the current and long-term activity format could pose challenges for some governments with large volumes of governmental funds activity. For example, the accounting systems utilized by some governments may not facilitate the categorization of transfers in and out as short-term or long-term.*

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

*Yes, we believe a statement of cash flows should be required for governmental funds. We believe that it's necessary to make governmental financial reporting easier to understand. This statement will also reduce the likelihood of financial statement users coming to inappropriate conclusions about financial condition and results of operations. Presenting a statement of cash flows would clearly identify the sources and uses of governmental funds for the reporting period, and further assist inexperienced financial statement users in understanding the operations of governments. We agree that since the amounts reported in the resource flows statement may be substantially different from the cash flows of the reporting period, the short-term recognition approach would necessitate presentation of a statement of cash flows.*

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

*The Governmental Funds Statement of Cash Flows presented in Illustration 9 was prepared using the direct method. While the direct method is clearly more useful to financial statement users, the accounting systems being utilized by some governments may not facilitate the preparation of statements of cash flows using the direct method. Governments with large charts of accounts and large volumes of governmental funds activity may find preparing statements of cash flows using the direct method to be both challenging and time-consuming.*

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 No. 9 to be appropriate for use in governmental funds statements of cash flows.*

Thank you for the opportunity to provide input in the standards development process.

Respectfully submitted,

Larry Stafford  
Chair, Professional Issues Committee

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