

Kevin M. Bronner, Ph.D.
Albany Research in Public Administration
4 Georgian Terrace
Loudonville, NY 12211

(518) 489-5252
(518) 424-0083 (cell)
Kbronner@nycap.rr.com

March 10, 2017

Director of Research & Technical Activities
Project No. 3-25I
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

VIA ELECTRONIC MAIL

Re: Comments on Project 3-25I *Financial Reporting Model Improvements-Governmental Funds.*

Director of Research & Technical Activities,

Thank you for the opportunity to comment on **Project 3-25I *Financial Reporting Model Improvements-Governmental Funds.*** These comments are organized around specific questions and illustrations presented in the invitation to comment document. The comments

support two basic concepts presented in the invitation to comment document. First, the long term financial resources perspective should be the main focus of the financial statements.

Second, a cash flow statement should be prepared for all governmental funds.

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?

Governmental fund financial statements should include the long term perspective as shown in Appendix D, Illustration 7. That illustration is a Long Term Financial Resources Balance Sheet which includes the other post employment benefits liability of \$39,368,585. The reflection of this type of liability will result in a presentation of the real fund balance for the governmental fund showing all liabilities. The other post employment liability is a large item for many local governments in New York State.¹ Also, under the current reporting model for local governments, it is often difficult to examine the other post employment benefit liability as it relates to the general fund. This was illustrated for a group of large cities in the United States.²

These comments recognize that the budgetary basis of accounting is still important for state and local governments. It would be appropriate, therefore, to include one of the shorter term perspectives as a subsidiary schedule to the long term perspective shown in Appendix D, Illustration 7.

¹ Kevin M. Bronner, *The Budget Crisis Associated with State and Local Government Employee Health Care Costs*, Albany Government Law Review, Volume 6, Issue 1, 2013.

² Kevin M. Bronner. *Improving Financial Reporting for Other Postemployment Benefits by State and Local Governments*. Association for Budgeting & Financial Management (ABFM) Conference in Washington, D.C. (October 3, 2013).

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, the budgetary focus basis of accounting is important to state and local governments since the financial viability of the governments is dependent on the budgetary cycle which for most governments occurs over a one year period. In the State of New York most governmental budgets are mandated by State Law. The comparisons that can be made between budget and actual items is a nice tool for governments to include in their financial statements. This allows financial statement users to follow trends in the budget and to determine if the budgeting numbers are realistic and well managed.

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?

As stated in my response to Question 2.1. *supra*. the long term focus provides the most relevant information since it includes all liabilities. While some may object to including the \$39,368,585 other post employment benefits liability on the current balance sheet, the amount can be illustrated like a debt issue showing the amounts that are expected to be due each year. For instance, if we expect that \$1 million of the liability is due in 2018, and \$1.5 million is due each year from 2019 to 2030, it would be easy to show a schedule showing the amounts due each year and adding up to the total of \$39,368,585.

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

Yes. It is a relatively simple exercise to compute a cash flow statement from an income statement for a 12 month period. The data in governmental funds is already converted to include it in the government-wide financial statements and it would be relatively simple to make an accounting conversion to cash for all items. (This also responds to Question 3.3). Also, budgets for state and local governments must include actual cash payments for most items. The budgetary basis of accounting is important to recognize in governmental accounting and a statement of cash flows to follow the budget is a good fit between the budgeting process and the financial reporting process.

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? In not, what classifications would be most appropriate?

The four classifications should still be used. It may be appropriate, however, to add a fifth category “Cash Flow Related to Deferred Items.” This would reflect any difference that relate to timing differences among deferred transactions. For instance, cash for a grant may be received in Year 1 but it is not earned until Year 2. You would want to show the cash in Year 1 but recognize that there is a deferred contingency on the cash since it has not yet been earned.

Summary and Conclusions

The long term perspective should be the main focus of the reporting model and one of the two shorter term models can be reflected as a subsidiary schedule to the long term model

presentation. A cash flow statement should also be developed and the budgetary comparison schedules should be retained. A special category of cash related to deferred items should be included in the cash flow statement in addition to the four traditional cash flow categories.

Respectfully submitted,

A handwritten signature in black ink that reads "Kevin M. Bronner". The signature is written in a cursive style with a long horizontal flourish at the end.

Kevin M. Bronner, Ph.D.
Albany Research in Public Administration (www.albanyrpa.com)
4 Georgian Terrace
Loudonville, NY 12211

(518) 489-5252

(518) 423-0083 (cell)

REFERENCES

Kevin M. Bronner. *Improving Financial Reporting for Other Postemployment Benefits by State and Local Governments*. Association for Budgeting & Financial Management (ABFM) Conference in Washington, D.C. (October 3, 2013).

Kevin M. Bronner, *The Budget Crisis Associated with State and Local Government Employee Health Care Costs*, Albany Government Law Review, Volume 6, Issue 1, 2013.