

**Government Finance Officers Association**

**Testimony before the**

**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

**Concerning its preliminary views on**

***RECOGNITION OF ELEMENTS OF FINANCIAL STATEMENTS  
AND MEASUREMENT APPROACHES***

**East Elmhurst, New York**

**October 4, 2011**

We are here today on behalf of the Government Finance Officers Association (GFOA) to offer testimony in response to the Governmental Accounting Standards Board's (GASB) recent preliminary views (PV) on the *Recognition of Elements of Financial Statements and Measurement Approaches*. This testimony was prepared by the GFOA's standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR), which advises the GFOA's Executive Board on all matters related to accounting and financial reporting.

**Overview**

The GFOA supports the position that the GASB has taken in the PV on the recognition of financial statement elements in financial statements prepared using the economic resources measurement focus. The GFOA also supports the GASB's proposed position on measurement approaches.

The GFOA further agrees that there needs to be a clear and solid conceptual foundation for the recognition of financial statement elements in governmental funds. Unfortunately, we do not believe the PV provides that foundation. The PV proposes to shift the measurement focus of governmental funds from *current* financial resources to *near-term* financial resources, arguing that the change would result in more consistent financial reporting. While that may be true, the PV fails, in our view, to make a conceptual case for the inherent value of the information that would thus be provided. Why, for instance, focus on near-term financial resources rather than cash?

**Specific recommendations**

The key tool for financial decision making in the public sector is the annual (or biennial) appropriated budget. The current financial resources measurement focus historically developed in an effort to provide *standardized information* that would be relevant to those making financial decisions in a budgetary context, *regardless of the basis of accounting used for budgeting* by a particular government.

Public-sector budgeting traditionally has revolved around the need to control *spending* (*appropriation* = legal authorization to spend public funds). Accordingly, the current financial resources measurement focus now in place for governmental funds:

- *Includes* spending that normally must be appropriated, even though it does *not* constitute expense of the period (capital outlay, repayment of principal, liquidation of long-term liabilities accrued in prior periods) and
- *Excludes* expense of the period that normally would *not* require an appropriation in the current period (depreciation expense, amortization expense, accrual of long term liabilities).

We believe this fundamental approach is sound and remains relevant, but that changes can and should be made to render its application more consistent and understandable in practice. That is, the measurement focus used for governmental funds in the future, in our view, should represent an organic development that builds upon all that is best in current practice.

***Primacy should be given to the statement of resource flows.*** The appropriated budget focuses on spending, which is reported in the statement of resource flows. Accordingly, we believe the measurement focus for governmental funds should place primary emphasis on the statement of resource flows. If a given decision ultimately must favor *either* the statement of resource flows *or* the statement of financial position, we believe the effect on the statement of resource flows should be dispositive.

***Expenditure recognition should reflect normal budgetary practice.*** We believe the guiding principle for expenditure recognition should be whether states and local governments *normally* would include an appropriation for a given item in the budget of the current period. Thus, we believe expenditures should be recognized for:

- Capital outlay;
- Debt service;
- Payments for supplies inventories and prepaids;
- Vendor payables incurred during the period; and
- Employee compensation earned during the period.

For the same reason we believe expenditures should *not* be recognized for:

- Interest incurred but not payable until a later period;
- The accrual of long-term liabilities; and
- Loans made to others.

***Name applied to the measurement focus used for governmental funds should be changed.***

Today the term *current* has two quite different meanings for users of state and local government financial statements. In the context of a classified statement of position (proprietary fund statement of position), it refers to the twelve months immediately following the reporting date (for example, a liability normally is considered to be *current* if it is expected be liquidated within one year of the end of the reporting period). In contrast, the term *current* is used in the context of governmental funds to describe inflows and outflows of spendable resources that are relevant to

the budget of the *current* period (for example, liabilities that normally would be paid from the current period's budget, even if payment actually occurs early in the subsequent period). We believe replacing the term *current financial resources measurement focus* with *near-term financial resources measurement focus* would go a long way toward eliminating the understandable confusion that often results from attaching different meanings to the same word.

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The GFOA appreciates being afforded the opportunity to testify at this hearing.