

LEGISLATIVE AUDIT DIVISION

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Project No. 3-20
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We appreciate the opportunity to read and respond to the draft "Preliminary Views of the Governmental Accounting Standards Board, on concepts related to Recognition of Elements of Financial Statements and Measurement Approaches." Members of our staff have read the preliminary view and offer the following comments.

Chapter 2 – Recognition of Elements of Financial Statements

1. Paragraph 2 - the Board's preliminary view regarding recognition of elements (as defined in Concept Statement 4) of the financial statements prepared under the economic resources measurement focus.
 - a. We agree with the Board's preliminary view, including the discussion related to reliable measurement.
 - b. Concepts related to recognition of *deferred outflows of resources* and *deferred inflows of resources* under this measurement focus ought to be included in this section when the Exposure Draft is issued. Inclusion here would enhance understanding of the concepts related to all financial statement elements reported under the economic resources measurement focus.
2. Paragraph 4 - Replacing the current financial resources measurement focus with the near-term financial resources measurement focus provides a more uniform and cohesive financial presentation by excluding elements that are long-term in nature. It provides decision-makers more complete information regarding available resources for a subsequent fiscal period by including liabilities due within the near-term (i.e. interest payable). However, excluding principle payments due within the near-term is inconsistent with a near-term financial position.

Concepts related to recognition of *deferred outflows of resources* and *deferred inflows of resources* under this measurement focus ought to be included in this section when the Exposure Draft is issued. Inclusion here would enhance understanding of the concepts related to all financial statement elements reported under the near-term financial resources measurement focus.
3. Paragraph 10 - the Board's preliminary view for recognition of deferred inflows and outflows of resources is consistent with the concept of interperiod equity.
4. Paragraph 11 - the Board's preliminary view for recognition of deferred inflows and outflows of resources under the near-term financial resources measurement focus is consistent with the concept of near-term conversion to/from cash.

There was no example provided for a deferred outflow. Input related to proposed concepts derived from the merits and demerits of current financial accounting and reporting could be more helpful to the Board if the examples provided used current financial statement captions (these types of transactions are currently recorded and reported) - for example, prepaid expenses and deferred revenue.

This appears to make full-accrual and modified-accrual accounting more similar than under current guidance, but we see more merit in the concerns (specifically Chapter 4, Paragraphs 13 to 19) expressed by the two GASB members not in concurrence with the Board's preliminary views than merit outlined in the Board's preliminary view.

Chapter 3 – Measurement Approaches

1. Paragraph 18 – we agree with the preliminary view as stated.
2. Paragraph 27 – the statement, “Gains and losses from remeasurement represent increases and decreases in resources of a government during the reporting period,” is not accurate. Remeasurements in governments are usually done only at the end of the fiscal year – the balance sheet date. Therefore, the gains and losses reported are actually net gains and losses for the year.
3. Paragraphs 34 and 36 – we agree with the Board's stated preliminary views.

Chapter 4 – Summary of Board Discussions and Alternate View

1. Paragraph 3 – we agree there is some confusion with the use of the term “current financial resources” in relation to reporting flows of current financial resources as opposed to the concept of current assets and liabilities and that the discontinued usage of this term is reasonable.
2. Paragraph 3 - we agree it is reasonable for the term “near-term financial resources” to be more specifically defined and addressed in a reporting standard rather than in a Concepts Statement.
3. Paragraph 12 – we agree it is appropriate that the board chose not to address constant-dollar accounting in this preliminary views statement.
4. Paragraph 13 – we agree that that the proposed concept statement does not clearly explain what statements prepared under the new “near-term” measurement focus are intended to communicate.
5. Paragraph 16 - the minority board members' objection regarding principle payments could be addressed (and should be) by recognizing those payments are near-term uses of cash.
6. Paragraph 17 - the minority board members' concerns should be addressed through the government-wide statements.
7. Paragraph 18 - any manipulative budgetary practices should be revealed through the Budget-Actual Required Supplementary Information and related note disclosures.

If you have any questions or need additional information concerning our response, please contact me at bkedish@mt.gov.

Sincerely,

/s/ Brenda Kedish

Brenda Kedish