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Project Number 3-20
Governmental Accounting Standards Board
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Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the Preliminary Views of the Governmental Accounting Standards Board (GASB, the Board), *Recognition of Elements of Financial Statements* (PV, the PV). The Board is to be commended for reissuing this PV and for taking steps toward developing an Exposure Draft of a Statement of Governmental Accounting Concepts relating to recognition of elements of financial statements of governmental funds. I appreciate this opportunity to respond and my comments reflect my views as a former government finance officer and a current academician responsible for teaching undergraduate and graduate level courses in governmental accounting and auditing.

General Comments

A reason underlying some of the concepts proposed in the PV appears to be comparability of information among governments. While this is an admirable goal in financial reporting, it ignores the fact governments are different and subject to different laws and regulations.

For example, general purpose governments differ from special purpose governments and the laws under which governments are established and operate differ from state to state (Napoleonic Law in Louisiana versus the Uniform Commercial Code in other states). State governments differ from general purpose local governments; and, within local governments, cities differ from counties, parishes, and boroughs. By definition, special purpose governments differ from each other in operation (schools versus hospitals) and in many cases due to legal form (higher education at the state level versus primary and secondary education at the local level) and status (constitutional versus statutory). It is even difficult to present comparable financial information between the same types of local governments in the same state.

Therefore, comparability among governments may not be achieved through the application of accounting standards. However, comparability may be perceived differently by different stakeholders which should be considered when establishing accounting and financial reporting standards. I do not generally believe it is practical or realistic to establish accounting standards on the basis of increasing financial comparability among governments. Having said this, I do believe the approach set forth in the PV will improve comparability among governments as I will discuss later in this response.

Chapter 1 – Objectives, Background, and Hierarchy of Recognition

I agree the current financial resources measurement focus does not have a conceptual foundation and concur with the many of the points raised in support of the proposed changes. Additionally, I believe recognition concepts should be applied using a hierarchy of recognition and the one proposed in paragraph 16 of this chapter is appropriate.

Chapter 2 – Recognition Concepts: Short-term Financial Resources Measurement Focus

I agree with the definition of the short-term financial resources measurement focus and the recognition concepts outlined in paragraph two and paragraph 5, respectively, of this chapter. As a former government finance officer, I know the operating budget for a governmental fund drives what governmental activities are provided, and when, based on the financial resources expected to be available during the budget period. In an effort to appease taxpayers and other resource providers, elected officials more often than not, do not focus on the long-term effect of their budgetary and other resource allocation decisions. Therefore, I believe reporting short-term transactions as they occur and long-term transactions when payments are due will be consistent with the governmental fund budgetary philosophies and policies of most state and local governments.

At times in the past the Board has ignored the role of the budget when establishing accounting and financial reporting standards for certain transactions. Today I applaud the Board for recognizing the role the budget plays in short-term accountability for governmental funds. The government-wide statements, notes, and Management's Discussion and Analysis provide all stakeholders with ample information to make decisions with respect to accountability in the long-term. Therefore, I do not believe it is necessary to mix short and long term components of financial position at the governmental fund level such as is proposed in the Alternative Views.

Budget philosophies of elected officials and state laws differ among governments. However, I believe comparability of financial reporting among governments is not practical or realistic in some cases. On the surface, reporting short-term transactions as they occur and long-term transactions when payments are due may not appear to improve comparability among governments. Managing the budget of a governmental fund encompasses making decisions as to when financial resources will be used – that is when they will occur or be due. Therefore, comparability will be achieved as all governments will report transactions when they occur and when payments are due even though the actual dates for these transactions will differ among governments. Additionally, recognizing short-term transactions as they occur and long-term transactions when payments are due will more closely align financial reporting with budget philosophies and polices. As a result, fund balance will provide more useful information for decision making because it better reflects what is available for spending in future periods.

Chapter 3 – Recognition Concepts: Economic Resources Measurement Focus

I agree with the definition of the economic resources measurement focus and the recognition concepts outlined in this chapter.

Chapter 4 – Alternative Views

Paragraphs five through seven

As stated previously, I am in agreement with the recognition concepts set for in the PV and therefore do not support the Alternative Views. Upon first reading of the PV I did feel as if portions of it were somewhat complex and I was not sure I fully agreed with focusing on when a transaction occurred or its original purpose. After reading the PV and Alternative Views numerous times and reviewing Appendix C in the related Financial Reporting Model Improvements Preliminary Views, I cannot support the Alternative Views. My reasons for continuing to support the PV rather than the Alternative Views are discussed in the following paragraphs.

The definition of short-term resources in the Alternative Views uses the time horizon of "within one year from the date of the financial statements" which is similar to the concept of current assets and current liabilities used by private sector entities. It is an objective measure and one which is likely familiar to most stakeholders. However, for governmental funds, the concept of "within one year from the date of the financial statements" is not likely to be consistent with budgetary practices which are in many cases driven by state and/or local laws and regulations. Reporting the items identified in paragraphs six and seven as financial assets and financial liabilities, respectively, using the concept of one year will not faithfully represent the financial condition of the government in the short-term. *Financial assets and liabilities reported on the basis of a one year period, rather than the budget cycle, will likely result in misleading information and incorrect conclusions as to how the government managed the financial resources available to it during the current budget period.*

In my experience notes and other long-term receivables arise because the government expends current financial resources which do not provide present service capacity. Therefore, notes and other long-term receivables do not appear to meet the definition of an asset. Likewise, there is no outflow of financial resources because there is no change in net assets (sacrifice one asset [cash] for another asset [note or other receivable]. In reality a government would budget expenditures based on cash expected to be available for the budget period not amounts receivable. Therefore, I believe notes and other long-term receivables meet the definition of a deferred outflow of resources because the resources to be received from the asset acquired (note or other long-term receivable) will be received in and are therefore applicable to a future budget period.

I do not agree with the items listed as financial liabilities in paragraph seven of the Alternative Views. All of the liabilities listed in paragraph seven represent amounts due in the next year or expected to be paid in the next year. Some of the financial liabilities listed represent a present obligation to sacrifice resources over which the government has little or no discretion to avoid nor can the government defer such obligations indefinitely. To the extent due within the next year, claims and judgments, tax/revenue anticipation notes, and principal on long-term debt fall into this category. While these are present obligations, the government is not obligated to sacrifice financial resources (that is make payments) on the reporting date. The government has discretion to make the payments at any time up to the due date. It is only on the due date the government has little or no discretion to avoid making payments. Therefore, these items would not meet the definition of a liability. These items do not meet the definition of a deferred outflow of resources nor the definition of an outflow of resources because net assets have not been consumed.

On the other hand, a government may have discretion to avoid paying accrued compensated absences or deferring such payment indefinitely. Unless negotiated during the collective bargaining process, the obligation of the government to pay employees accrued compensated absences is likely a moral rather than a legal obligation. While it might be politically ill advised to not honor such a moral obligation, the government does have discretion in such cases. Therefore, accrued compensated absences would not meet the definition of a liability. Additionally, they do not meet the definition of a deferred outflow of resources nor the definition of an outflow of resources because net assets have not been consumed.

Many governments budget for payments due in the next year in the next year's budget. As such, no financial resources exist at the end of the current year budget cycle to liquidate these obligations. Including them as financial liabilities (assuming a case can be made these obligations meet the definition of a liability) in the year due rather than the year incurred would not result in faithful representation and would not properly reflect accountability for governmental resources. For example, reporting financial liabilities without offsetting financial assets would decrease net assets when, from a budgetary perspective, net assets of the government were not affected.

Some governments budget in the current budget cycle for long-term debt payments due in subsequent budget cycles. In these cases, the consumption of net assets in the current period relates to an obligation due in a future period. Therefore, a deferred outflow of resources should be reported to the extent restricted, committed, or assigned financial resources exist at the end of the reporting period to pay such obligations in future periods.

Paragraphs 10 through 16

While the concept of *normally* is very subjective and may vary from state to state due to various laws and regulations over which governments likely have little or no control, it is likely to reflect budgetary philosophies and policies. A stated in my comments relating to Chapter 2 of the PV, I believe the definition in the PV will enhance consistency and improve comparability among governments. Arguably, applying the concept of *normally* requires judgment while using the stated/contractual maturities does not. Using the concept of normally will, however, better meet the objective of accountability for short-term decisions and transactions.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (407) 869-9254 or **lkmdennis@gmail.com**.

Sincerely,

s/Lynda M. Dennis

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