



**Office of the Washington State Auditor  
Pat McCarthy**

February 8, 2019

Via Electronic Mail

Director of Research and Technical Activities  
Project No. 3-20  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

RE: Response to GASB Preliminary Views – *Recognition of Elements of Financial Statements*

Dear Mr. Bean:

The Office of the Washington State Auditor appreciates the opportunity to give input on the GASB’s Preliminary Views – Recognition of Elements of Financial Statements (Project No. 3-20). In our constitutional role as the auditor of public accounts for the State of Washington, our Office performs the financial audit of the State of Washington and annually performs or reviews financial audits of the State’s agencies and all types of local governments, along with their component units.

We appreciated that the Board is updating the concept statements in conjunction with their revenue and expense recognition project. Having revenue and expense recognition supported by underlying concept statements is ideal, particularly since a major aspect of the project is to address that the current model for governmental funds does not have a conceptual foundation (as stated in Chapter 1, par 11). We also agreed with the Board’s preliminary views that recognition concepts should include a hierarchy (Chapter 1, par 16) and recognition for the economic resources measurement focus (Chapter 3, par 2 and 4).

Regarding concepts for governmental funds, we prefer the alternative view. The proposed short-term focus method focus on class of transaction and determination of short or long-term “from the inception of the transaction or other event” is confusing and could lead to inaccurate application of the short-term basis of accounting. The alternative view defines short or long-term based on when the asset or liability will be received or paid, which we believe is more simple, understandable, conceptually consistent and will be more easily accepted by financial statement preparers.

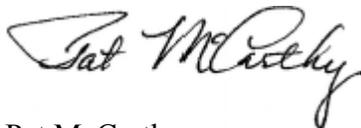
We also agreed with the alternative view that the concept of “normally” should be eliminated for the reasons stated in Chapter 4, par 11-16. Specifically, we disagree with the rationale stated in Chapter 2, par 9 that the concept of “normally” would result in governments reporting more consistently and based on substance over form. Inconsistency relates to having the same facts and circumstances reported differently by different governments. However, the concept of “normally” would result in the opposite – having governments reporting the same when facts and circumstances may actually be different. Moreover, the “form” of a transaction is the name or label or classification someone might assign to it, in contrast to its substance which would consist of the transaction’s contractual terms and economic reality. “Normally” would achieve the opposite of reporting the form over substance.

Finally, we believe that omission of short-term outflows from long-term liabilities - such as bond payments due in the next year – will continue to result in an asymmetrical presentation. Whether an expected outflow in the next period is in relation to what was originally a long-term transaction does not change the fact that it is an outflow that will occur in the short-term and should be considered when determining funds available to spend in the next period.

However, we noted that neither the proposed nor alternative view exactly matches definitions of “current assets” and “current liabilities” from GASB Codification 2200.175-176, although the alternative view is much closer. We would encourage the Board to consider these definitions of current assets and current liabilities in order to align the reporting model to the extent possible. Alignment not only addresses conceptual consistency within the reporting model, it also contributes to the understandability of statements and reduces the cost to prepare and audit them.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 902-0360.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy  
State Auditor