



February 15, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Project: 3-20

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Government Accounting Standards Board (GASB) on its February 15, 2019 Preliminary Views of Concepts related to *Recognition of Elements of Financial Statements* (PV).

The FMSB is comprised of 19 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

In addition, this letter serves as notice of intent to participate in the public hearing on March 14, 2019 in New York. Eric Berman will be delivering the views of the FMSB and will be available to discuss any questions you may have on our response to this PV. He may also be able to respond to any issues raised but unaddressed at the March 12, 2019 hearing in Atlanta for the related PV, *Financial Reporting Model Improvements* (project 3-25).

Our response to the Board is based upon the concepts raised in the Chapter. We agree with many aspects of the proposed concepts. In other aspects, we support the Alternative Views.

The FMSB is supportive that a conceptual framework is needed to recognize elements of financial statements. We do not strive to change the existing elements of the financial statements as it is beyond the scope of this project.

We agree with the Board's Preliminary View to apply a hierarchy to evaluate accounting transactions. We consider the hierarchy as logical and understandable. We believe the only way to recognize the proper presentation of a transaction is to initially consider if it results in an asset or a liability. If not, the Board should consider if the transaction results in a deferred outflow of resources or a deferred inflow of resources. Finally, if not one of the previous four elements, does the transaction result in an outflow or an inflow. We

can think of no different way to recognize transactions and can think of very few transactions that would *not* result in one of the six elements described in GASB Concepts Statement No. 4, *Elements of Financial Statements*. The addition of this hierarchy will enhance this recognition process.

In applying the hierarchy to the short-term financial resources measurement focus as outlined in Chapter 2, par. 5, we disagree with the current provision of meeting the definition of an element within the context of the short-term measurement focus as discussed in Chapter 2 and instead support the Alternative View as discussed in the next paragraph of this response. We support the measurement of the item reflecting the qualitative characteristics of financial reporting, subject to the limitations of financial reporting as described in GASB Concepts Statement No. 1, *Objectives of Financial Reporting*.

We disagree with the Board's preliminary view on the concept of the short-term financial resources measurement focus in one important aspect of the conceptual framework. We support the positions outlined in the alternative views section regarding the modified definition of short-term financial resources and replacing the concept of "*normally*" with stated or contractual maturities of financial assets and liabilities or the best estimate of periods of receipt or payment if there are no stated or contractual maturities. We are concerned that the term "*normally*" is too subjective and open to wide interpretation. We consider use of stated or contractual maturities as easily understood and verifiable by auditors and in the absence of stated or contractual maturities, usage of the best estimate of periods of receipt or payment is something that accountants and auditors are likely to come to agreement on since estimates are commonplace in creating financial statements. The Board's Preliminary View retaining the concept of "*normally*" may result in continued inconsistency between governments with like operations in governmental funds as one government's 'normal' is not another government's 'normal' due to budget provisions, operations, laws, regulations and other differences.

Further, we are not supportive of the rationale of the short-term financial resources measurement focus relating to budgetary information of *some* governments. Indeed, the inflows and outflows may closely align to an *annual* budget, but not a biennial budget without significant estimation of which period the flow was recognized.

But we are fully supportive of attaining some conceptual consistency in governmental fund financial statements. Indeed, governmental fund reporting is a patchwork of conventions built up over the decades. The examples offered in Chapter 2, paragraph 17 could also include other transactions such as defined benefit pensions and other postemployment benefits which do not have a conceptual framework under the current model. Yet, they may represent enormous liabilities on the government's statement of net position.

The FMSB has no issue relating to the concepts recognizing transactions in the economic resources measurement focus. The definition and recognition provisions in Chapter 3 are systematic and rational.

In addition to supporting the Alternative View on the issue of "*normally*," the FMSB believes the modified definition in the Alternative View provides a more fairly stated calculation of resources available to spend in the coming period by including the current portion of long-term receivables or similarly structured long-term liabilities. Estimates can be readily achieved due to the lengthy history of transactions in most governmental funds and the highly structured nature of many long-term receivables and liabilities. Many of these transactions are embedded in contracts. The Alternative View is also more closely aligned to the definitions of 'current assets' and 'current liabilities' contained in GASB Cod. Secs. 2200.175-176. We believe the more consistent the definition is, the greater the understanding the information and limitations in governmental fund financial statements.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact me at (208)383-4756 or Lmiller@eidebailly.com.

Sincerely,



Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John H. Lynskey, CGFM, CPA, AGA National President

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