



Letter of Comment No. 030  
File Reference: REC  
Date Received: 02/15/2019  
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February 14, 2019

Mr. David Bean  
Director of Research and Technical Activities, Project No. 3-20  
Governmental Accounting Standards Board  
Norwalk, CT  
Via email: [director@gasb.org](mailto:director@gasb.org)

Dear Mr. Bean:

On behalf of the professionals serving governmental entity clients at CliftonLarsonAllen LLP (CLA), we appreciate the opportunity to comment on the Preliminary Views, *Recognition of Elements of Financial Statements*, Project No. 3-20.

We recognize the value of the Board's efforts to issue a Statement of Governmental Accounting Concepts which addresses recognition of elements of financial statements in order to enhance consistency and provide a framework for evaluating transactions. Although we concur the current financial resources measurement focus is missing a defined conceptual framework, the accounting conventions are sufficient to consistently apply it, with few exceptions.

Beyond establishing a conceptual framework for existing financial reporting in governmental funds, the concepts included in the Preliminary Views include many changes to existing financial reporting. These changes, implemented with the proposed changes in the financial reporting model, will require extensive effort by preparers to implement, and significant education of users of governmental financial statements. We do not regard these proposed changes sufficient to address the Boards concerns or objectives, and feel the cost of implementing such changes will vastly outweigh any perceived benefits.

As stated in the GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, and discussed in paragraph 19 of chapter 2 of the Preliminary Views, the objective of financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability by:

- (1) Providing information to determine whether current-year revenues were sufficient to pay for current-year services.
- (2) Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements.
- (3) Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

In our view, the most significant deficiency in the current financial resources measurement focus is the lack of information related to cost of current-year services, specifically as it relates to employee services. Many employees of governments receive fringe benefits, such as compensated absences which vest, are accrued, and are paid at separation. Retirees also receive retirement and other postemployment benefits that are part of the total compensation package earned during current-year service to the government. However, the current cost of these employee services is not measured and included in the current financial resources measurement focus, and the proposed short-term financial resources measurement focus also excludes these costs related to employee service. Neither the current nor proposed measurement focus demonstrates whether current-year revenues were sufficient to pay for current-year services. Inherently, the short-term focus of governmental funds limits the reliability of the information for this assessment.

We believe the current financial resources measurement focus used for governmental funds, along with the currently-used economic resources measurement focus for government-wide financial statements, already communicate the differences between shorter-term and long-term reporting of financial transactions without wholesale replacement of the measurement focus of governmental funds proposed in the Preliminary Views. The change to the short-term financial resources measurement focus proposed by the Board will not significantly improve the information presented in the governmental fund financial statements and, therefore, we do not support its adoption.

Alternatively, we recommend the Board consider issuing further guidance on the relatively few items subject to inconsistency in the current financial resources measurement focus and the modified accrual basis of accounting. The areas we consider to include the potential for inconsistent reporting include the period of availability, prepaids and inventory, and matured liabilities. Our recommendations for those areas are detailed in our response to the previous Invitation to Comment on the Financial Reporting Model Improvements – Governmental Funds.

Should the Board proceed with the concepts proposed in the Preliminary Views, we offer the following comments regarding the proposed framework detailed in the following paragraphs.

## **Chapter 2**

There is ambiguity in the description of financial assets in paragraph 3 for the element “assets that are available to be converted to cash.” If the assets are not expected to be converted to cash during the current period, are they considered to be short-term financial assets that should be included in fund balance? For example, consider long-term investments such as debt securities, intended to be held to their maturity over a term spanning a number of years. Based on Appendix C of the referenced Preliminary Views document, *Financial Reporting Model Improvements*, investments would be reported as a financial asset. Conversely, the example of a notes receivable, which could meet the definition of “assets that are available to be converted to cash,” are not considered to be a financial asset and are not reflected. The substance of the expected cash flows for these transactions is the same, yet the reporting is inconsistent. We are concerned that classification between short-term transactions and long-term transactions described in paragraph 6 will cause this inconsistent asset recognition and may distort financial position.

Another inconsistency we noted is the statement in paragraph 4, which reads: “Financial statements presented applying the short-term financial resources measurement focus would enable assessment of the amount of fund balance at period-end that is available for spending in the next period, which may or may not be restricted for specific purposes, as well as fund balance that is legally or contractually required to be maintained intact.” It is unclear how an amount required to be maintained intact reflects the short-term concept intended for governmental funds.

Paragraphs 8 and 18 of Chapter 2 include discussions related to determination of short-term or long-term and would apply to entire classes of transactions. This could be problematic because not all items in a class of transactions include similar characteristics. For example, sometimes grant proceeds are provided as a lump sum, and sometimes proceeds are intended to be distributed over a longer time period, such as a multi-year grant. Grouping these two types of grants may not properly reflect the nature of when the resources will become available for spending.

We also noted in chapter 2, paragraph 9, the Board anticipates needing to issue further guidance on what is considered to be normal for specific classes of transactions. In our opinion, a concept statement should not require further guidance to supplement the concept. We recommend the final concept statement include all information necessary to support the recognition concepts intended by the Board.

#### **Chapter 4**

For the reasons stated above, we agree with the alternative views described in chapter 4.

We concur that the definition of short-term financial resources measurement focus should include the portion of all financial liabilities that mature or are expected to be paid in cash within one year of the date of the financial statements. We feel this modified definition more closely aligns with how governments operate, budget, and collect revenue.

We agree that replacement of the concept of *normally* with the stated or contractual maturities, or best estimates, of financial assets and liabilities will result in presentation of financial position that will more closely reflect economic substance. Using “normally” and classifying entire classes of transactions between short-term and long-term will not present financial position and results of operations as accurately as the actual or expected maturities.

In closing, we thank the Board for the opportunity to comment on the Preliminary Views and provide input as the Board continues to deliberate the need for issuance of a concepts statement on recognition.

Respectfully submitted by

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**CliftonLarsonAllen LLP**