



Governmental Accounting Standards Board

Director of Research & Technical Activities; director@gasb.org

Project No. 3-20

Comments on Preliminary Views – Recognition of Elements of Financial Statements

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The conceptual framework concerning financial reporting and recognition of assets and liabilities for governmental funds should be based upon what is most beneficial to the users of the financial statements. For most governments the use of the short-term basis of accounting should record transactions that includes liquid assets and liabilities that were either “earned”, or an obligation “incurred” during the period ended. The short-term approach should also align with most governments operating budgets which is what is used to make legally approved appropriations and the spending of resources.

I agree with the Board’s approach that a “principle” rather than a “rule” based concept is preferable.

One basic question is then should “cash”, or a “short-term” basis of accounting be used for governmental fund accounting. The short-term basis is more relevant since a government has “earned” assets, or “incurred” obligations during the year that may not be liquidated until after the fiscal year-end date. To maintain the concept of **“matching” expenditures incurred with revenues “earned”** then the short-term, or some type of modified-accrual, basis of accounting should be used. The short-term basis of accounting could avoid the potential for the manipulation of governmental fund financial statements that could occur if the cash method was followed. Under the cash basis of accounting a government could just simply not make payments of certain obligations until after the fiscal year-end or accelerate payments in the current year to make the succeeding year look better.

I agree with the Board’s concerns regarding the current measurement and recognition criteria used in governmental funds and the definition of the “period of availability” of revenues as described in **Chapter 1 paragraph 14**. The current practice for the period of availability of 60 days for property taxes, 60 to 90 days for certain other revenues, such as sales taxes, and the alternatives available to governments to recognize other revenues such as grants up to one year makes for significant inconsistencies between different governments. A principle-based approach of availability of up to one year would be more consistent as long as the underlying revenue has occurred or been “earned”.

If the Board’s definition of long-term transactions in **Chapter 2 paragraphs 6(b) and 7** means that principal due on long-term debt that is payable within the next year (12 months) should be accrued as a liability on the governmental fund balance sheet, then I think the short-term concept **may violate the accounting concept of “matching”** expenditures incurred with revenues occurred. Most governments pay long-term debt with current year revenues, such as property or sales taxes, that have occurred and budgeted through an annual process. To record the portion of principal due within the next fiscal year does not match the revenue stream with the expenditure or budget

process of most governmental entities. This has introduced an element of the “full accrual” basis of accounting that would seem to contradict the concept of accounting under the short-term approach.

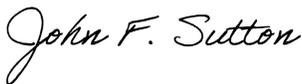
The alternative views expressed in **Chapter 4 paragraphs 6 and 7** raise significant questions related to the recording of principal debt maturities due within one year at year-end, including other obligations such as compensated absences, claims and judgements and revenue & tax anticipation notes payable.

To maintain the concept of “matching” expenditures incurred and revenues occurred within the concept of “short-term” financial resources, then the amounts accrued as current liabilities for long-term transactions should include only the past due amounts (delinquent), or short-term liabilities expected to be liquidated shortly after year-end to the extent receivables have been accrued and revenues recognized that are to be used to pay such liabilities.

Currently under the modified-accrual basis of accounting for governmental funds, some assets that “normally take more than 12 months to realize have been recorded such as notes receivables, land for resale and certain consumable inventories that are not utilized. This PV document will help clarify the governmental fund reporting concepts and provide more guidance to help rectify inconsistencies between the reporting concepts and current practice.

The concept of “normally” as described in **Chapter 2 paragraph 9** states that... “It is expected that additional authoritative guidance would be provided to identify what is considered normal for specific classes of transactions.” I would encourage the GASB to issue some type of authoritative guidance before the effective date of this possible new Statement so that preparers, auditors and users have adequate time to prepare for implementation and adoption.

Respectively Submitted,



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