



Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

February 14, 2019

Mr. David R. Bean
Director of Research and Technical Activities, Project No. 3-20
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board's preliminary views (PV) on concepts related to *Recognition of Elements of Financial Statements*. We support the Board's efforts to develop a conceptually sound foundation for governmental financial reporting and agree that amendments to the Board's concept statements are necessary to support future accounting standards. We have organized our comments as responses to each of the board's preliminary views.

GASB: It is the Board's preliminary view that recognition concepts for financial statements presented applying the short-term financial resources measurement focus and the economic resources measurement focus should include a hierarchy in which an item first should be evaluated to determine whether it meets the definition of an asset or a liability. If the item meets the definition of an asset or a liability, it should be recognized as an asset or a liability. If the item does not meet the definition of an asset or a liability, the item should be evaluated to determine whether it meets the definition of a deferred outflow of resources or a deferred inflow of resources. If the item meets the definition of a deferred outflow of resources or a deferred inflow of resources, it should be recognized as a deferred outflow of resources or a deferred inflow of resources. If the item does not meet the definition of a deferred outflow of resources or a deferred inflow of resources, the item should be evaluated to determine whether it meets the definition of an outflow of resources or an inflow of resources. If the item meets the definition of an outflow of resources or an inflow of resources, it should be recognized as an outflow of resources or an inflow of resources. If the item does not meet the definition of an outflow of resources or an inflow of resources, the item should not be recognized in the financial statements.

We agree with the Board's preliminary view to apply a hierarchy to evaluate accounting transactions. We consider the PV's hierarchy as logical and understandable and we have no suggested changes.

GASB: The Board's preliminary view is that the financial statements for governmental funds should be presented applying the short-term financial resources measurement focus. The short-term financial resources measurement focus should be defined as a

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measurement focus that incorporates elements of financial statements arising from short-term transactions and other events as they *occur* and elements of financial statements arising from long-term transactions and other events when payments *are due*.

Based on the reasoning and examples presented in Chapter 4, we support the alternative view of adopting a modified definition of short-term financial resources and replacing the concept of "normally" with stated or contractual maturities of financial assets and liabilities or, in the absence of such detail, the best estimate of periods of receipt or payment. We are concerned that the term "normally" is too subjective and open to wide interpretation, which will detract from the board's goal of enhancing comparability of financial statements. We consider use of stated or contractual maturities as easily understood by preparers and verifiable by auditors. In the absence of stated or contractual maturities, usage of the best estimate of periods of receipt or payment is something that can be monitored and improved upon over time. When presented with the examples in paragraphs 13 and 14 of Chapter 4, we consider the alternative's view of recognizing these events in the current period as the preferred way of assessing how much fund balance will be available for spending in the next period.

GASB: The Board's preliminary view is that in financial statements presented applying the short-term financial resources measurement focus, an item should be recognized and, therefore, reported as an element of the financial statements if it meets both of the following criteria:

- a. **The item meets the definition of an element (as set forth in Concepts Statement 4, *Elements of Financial Statements*) within the context of the short-term measurement focus in paragraphs 6-14 of this chapter.**
- b. **The measurement of the item sufficiently reflects the qualitative characteristics of information in financial reporting, subject to the limitations of financial reporting, described in Concepts Statement 1, *Objectives of Financial Reporting*.**

We agree with the adoption of item b. as stated above. We also agree that an item must also meet the definition of an element as set forth in Concepts Statement 4, however, we would amend item a. to incorporate the alternative view's modified definition of short-term measurement focus and replacing the concept of "normally" as outlined in the alternative views in Chapter 4.

GASB: The Board's preliminary view is that the economic resources measurement focus should be defined as a measurement focus that incorporates all outflows of resources and inflows of resources and all assets, liabilities, deferred outflows of resources, and deferred inflows of resources.

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We agree with the Board's preliminary view that the economic resources measurement focus has the broadest scope and appropriately includes all assets, liabilities, deferred inflows of resources, deferred outflows of resources, inflows of resources and outflows of resources.

GASB: The Board's preliminary view is that in financial statements presented applying the economic resources measurement focus, an item should be recognized and therefore reported as an element of the financial statements if it meets both of the following criteria:

- a. **The item meets the definition of an element (as set forth in Concepts Statement 4).**
- b. **The measurement of the item sufficiently reflects the qualitative characteristics of information in financial reporting, subject to the limitations of financial reporting, described in Concepts Statement 1.**

We agree with the Board's preliminary view that financial statements prepared using the economic resources measurement focus should meet the criteria noted in a. and b.

Sincerely,



Doug Ringler
Auditor General

cc: C. Murray, CPA, CIA

Via e-mail